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CIS

FRAUD IN FEDERAL PROGRAMS

HEARING
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE
NINETY-SEVENTH CONGRESS
FIRST SESSION

PART 1

MAY 19, 1981

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FRAUD IN FEDERAL PROGRAMS

TUESDAY, MAY 19, 1981

U.S. Senate,
Committee on Governmental Affairs,
Washington, D.C.

The committee met at 10 a.m. in room 3302, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee), presiding.

Present: Senators Roth, Cohen, Mattingly, Rudman, and Sasser.

OPENING STATEMENT OF SENATOR ROTH

Chairman Roth. The committee will please be in order.

The Governmental Affairs Committee convenes today on a subject which is of concern to all the taxpayers of our Nation: Fraud in Government.

Our witnesses will include Mr. Edwin Harper, the Deputy Director of the Office of Management and Budget; Mrs. Ruth Prokop, Chairwoman of the Merit Systems Protection Board; and Mr. Donald Scantlebury, Division Director and Chief Accountant of the GAO.

Today's hearings will begin an indepth look into fraud in Federal programs. We want to get a better understanding of how it happens, why it happens, and most importantly, how can it be prevented. Our inquiry will involve a review of a recent GAO report entitled, "Fraud in Government Programs—How Extensive Is It? How Can It Be Controlled?";[1] a recent MSPB report entitled, "Do Federal Employees Face Reprisal For Reporting Fraud, Waste or Mismanagement?";[2] and a look into the new administration's efforts to combat these problems with the newly created Council on Integrity and Efficiency.

We will also begin an examination of the Financial Integrity Act of 1981 as a possible legislative solution to the problems outlined in these reports.

This hearing is the first in a series of hearings on fraud, waste, and abuse in Government. On the issue of fraud, which is what we are considering here today, I am very concerned. The GAO report is based on an analysis of over 77,000 cases of fraud and other illegal activities in 21 Federal agencies over a 2½-year period. In the 77,000 cases GAO reviewed, the loss to the American taxpayer was projected at between $150 and $220 million. This figure is just the tip of the iceberg because the study is based only on those cases the Federal agencies themselves could identify.

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[1] See p. 101.
[2] See p. 203.

These figures do not include the cost of the thousands of fraud cases which go undetected, and, in fact, points out quite clearly that the agencies are unaware of many of the fraud cases which may have been occurring in their agencies. GAO found that most fraud remains undetected due to weak, inadequate or nonexistent internal control mechanisms. Federal managers do not seem to place as a high priority on the institution of strong fraud control procedures in their agencies as they should. Few agencies have internal control systems to curb fraud, and as a result, most agencies have no idea how much fraud exists in their programs. While the total cost of the fraud cases uncovered by GAO appears small in relation to the huge Federal budget, these small cases highlight far more serious internal control problems within the agencies.

Even more fundamentally, we cannot afford to ignore or brush off even small examples of fraud. To be blunt about it, stealing is stealing whether done with a gun or with a Government travel voucher. The cost of fraud far exceeds the dollars which can actually be identified in Federal programs. Fraud erodes the public's confidence in Government's ability to effectively manage programs. Fraud undermines the effectiveness of these programs by diverting funds from those who are in need to those with overbearing greed.

The extent of the fraud problem is eye-opening and it prompts the question, "Why is this occurring?" The report makes clear that although most Federal employees are aware of fraud in their programs, upper level Federal managers are often unconcerned or choose to ignore it. The Merit Systems Protection Board released a report in April which confirmed this conclusion by finding that over half of all Federal employees surveyed in the report believed that nothing would be done if they did report a possible fraud to their bosses.

Most fraud cases are detected only after the agencies trip over them or discover them by accident. Small fraud cases are seldom deened worthy of prosecution. No one is stealing the agencies blind; they have simply decided to turn out all the lights and sit in the dark.

The purpose of these hearings is to highlight these problems. We should strongly support agency employees and others who are willing to report fraud. Strong internal controls in the agencies are needed because once fraud occurs, only rarely is the taxpayer's money recovered.

Without objection, I will ask that my statement be included in its entirety.

[The prepared statement of Senator Roth follows:]

Prepared Statement of Senator William V. Roth, Jr.

The Governmental Affairs Committee convenes today on a subject which is of concern to all the taxpayer's of our Nation: Fraud in Government. Our witnesses will include Mr. Edwin Harper, the Deputy Director of the Office of Management and Budget; Mrs. Ruth Prokop, Chairwoman of the Merit Systems Protection Board, and Mr. Donald Scantlebury, Division Director and Chief Accountant of the General Accounting Office.

Today's hearings will begin an in-depth look into fraud in Federal programs. We want to get a better understanding of how it happens, why it happens and how it can be prevented. Our inquiry will involve a review of a recent GAO report entitled, "Fraud in Government Programs—How Extensive Is It? How Can It Be Controlled?" A recent MSPB report entitled "Do Federal Employees Face Reprisal for Reporting Fraud, Waste, or Mismanagement?" And a look into the administration's efforts to combat these problems with the newly created Council on Integrity and Efficiency. We will also begin an examination of the Financial Integrity Act of 1981 as a possible legislative solution to the problems outlined in these reports.

This hearing is the first in a series of hearings on fraud, waste and abuse in Government on the issue of fraud, which is what we are considering here today, I am very concerned. The GAO report is based on a statistical analysis of over 77,000 cases of fraud and other illegal activities in 21 Federal agencies over a 2½ year period. In the 77,000 cases GAO reviewed, the loss to the American taxpayer was projected at between 150 million and 220 million. This figure is just the tip of the iceberg because the study is based only on those cases the Federal agencies themselves could identify. It does not include the costs of the thousands of fraud cases which go undetected and in fact points out quite clearly that the agencies are unaware of many of the potential fraud cases which may have occurred in their agencies. GAO found that most fraud remains undetected due to weak, inadequate or non-existent internal control mechanisms. Federal managers do not seem to place as a high priority, the institution of strong fraud control procedures in their agencies. Few agencies have internal control systems to curb fraud and most agencies have no idea how much fraud exists in their programs. While the total cost of the fraud cases uncovered by GAO appears small in relation to the huge Federal budget, these small cases may hide for more serious internal control problems within the agencies.

Even more fundamentally, we can not afford to ignore or brush off even small examples of fraud. To be blunt about it: stealing is stealing whether done with a gun or with a Government travel voucher. The costs of fraud far exceed the dollars which can actually be identified in Federal programs. Fraud erodes the public's confidence in Government's ability to effectively manage programs. Fraud undermines the effectiveness of necessary programs by diverting funds from those who are in need to those with overbearing greed.

The extent of the fraud problem is eye opening and it prompts the question "Why is this occurring?" the report makes clear that although most Federal employees are aware of fraud in their programs, upper level Federal managers are often unconcerned or choose to ignore it. The Merit Systems Protection Board released a report in April which confirmed this conclusion by finding that over half of all Federal employees surveyed in the report believed that nothing would be done if they did report a possible fraud to their bosses.

Another reason for the incredible levels of fraud in the agencies is the fact that most of them do little to enforce a strong system of internal controls to prevent illegal activities from occurring. Most fraud cases are detected only after the agencies trip over them or discover them by accident. Small fraud cases are seldom felt to be worthy of prosecution. No one is stealing the agencies blind—they have simply decided to turn out all the lights and sit in the dark.

The purpose of these hearings is to highlight these problems. We should support, and strongly, agency employees and others who are willing to report fraud in agcnices. Strong internal control systems in the agencies are needed because once fraud occurs, only rarely is the taxpayers' money recovered. S. 864, the Financial Integrity Act of 1981, which Senator Eagleton and I recently introduced, would force the agencies to create such systems. I feel certain these hearings will begin to lay a strong framework for undertaking these needed changes. We will continue with this inquiry in additional hearings focusing our attention on witnesses from the FBI and from the offices of inspector general. I fully intend to use the resources of this committee to encourage, and in some cases mandate, improvements in the Federal agencies that will prevent or catch fraud before the taxpayer loses out.

Chairman ROTH. I do want to make the point that in studying fraud, no agency, whether it is HHS or the Department of Defense, is going to slip by. Fraud is fraud wherever it occurs, and I happen to feel that the Defense Department is as important an area of study as any other social agency.

Senator Cohen, would you care to make a remark?

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. Just a few comments, Mr. Chairman.

I commend you for initiating the hearing.

President Reagan campaigned on the pledge that one of his top priorities would be the elimination of fraud and waste in Government. In fact, he has tied much of the success of his tax- and budget-slashing recovery programs to finding and cutting literally tens of billions of dollars in fraud and waste from governmental programs.

Further, the President has declared he is appointing inspectors general within the executive departments who would rip into governmental fraud and waste "like a junkyard dog."

I have been very fortunate in the past to have served on this committee, to have joined with many Senators, including the chairman, in exploring instances of fraud and abuse. For example, in March the Subcommittee on Oversight of Government Management conducted 2 days of hearings on the subject of suspension and debarment of contractors who had defrauded or had otherwise performed irresponsibly in contractual relationships with the Federal Government. We had some modest measure of success last week with an amendment that was offered by myself and Senator Levin to the Department of Defense procurement authorization bill. The amendment would insist that the Department of Defense also give at least presumptive validity to a debarment or suspension proceeding initiated by another agency.

We have had, in our Government, instances in which one agency would debar or suspend a contractor who had either perjured himself or lied or misrepresented his company's potential or had performed irresponsibly and then had been debarred. Yet that particular contractor would walk across the street and do business with the Department of Defense without any objection. So there was one example where we think that fraud and abuse is so pervasive that our governmental system ought to apply even to the Department of Defense.

Whether we will be able to hold that in conference remains another question altogether. Also, Mr. Chairman, under your leadership, we held hearings for 2 days last week in the field of home health care, in which we saw some rather glaring examples of how easy it is to defraud the Federal Government. It seems to me there are two basic problems that came about in both of those sets of hearings; namely, a lack of conscientious scrutiny combined with a lack of meaningful followup action by Government officials against instances of fraud and abuse within Federal programs. So I am certain that the mission of the President's Council on Integrity and Efficiency is to focus on those instances in which governmental officials are lackadaisical in scrutinizing programs for instances of waste and fraud, and that that mission will also focus on those cases of no followup action, when followup action would appear to be the logical remedy.

Finally, with respect to the GAO, ordinarily it addresses this two-pronged problem. I think there is evidence in the reports that we will hear from today that will, again, focus upon that.

The Merit Systems Protection Board focuses on employee performance. It reviews instances in which employees or supervisors have attempted meaningful followup to either report or correct fraud. Since its creation under the Civil Service Reform Act of 1978, the Board's focus generally has been on examples of negative repercussions of such efforts, with those repercussions taking the form of reprisals. I think it is imperative that we continue to hammer away at fraud and abuse. If the "junkyard dogs" within the agencies who are ripping out and chewing up fraud can combine their efforts with the "junkyard dogs" on this committee, including those witnesses to appear today, then we might be able in the future to convince any would-be perpetrators of fraud that finally the Federal Government's bite is getting to be much worse than its bark.

Thank you, Mr. Chairman.

[The prepared statement of Senator Cohen follows:]

PREPARED STATEMENT OF SENATOR WILLIAM S. COHEN

Mr. Chairman, I want to commend you for initiating this hearing on the Need to Prevent Instances of Fraud Within the Federal Government.

President Reagan campaigned on the pledge that one of his top priorities would be the elimination of fraud and waste in Government. In fact, he has tied much of the success of his entire tax-and-budget-slashing recovery program to finding and cutting literally tens of billions of dollars in fraud and waste from governmental programs. Further, the President declared that he was appointing inspectors general within executive departments who would rip into governmental fraud and waste "like a junkyard dog."

I applaud all of those intentions on the part of the President. I feel that we complement and strengthen his efforts when we hold hearings, such as the one we are holding today.

I have been very fortunate in the past to have jointed with many of the senators sharing this dais in exploring related instances of fraud in Federal agencies. For example, in March the Subcommittee on Oversight of Government Management conducted 2 days of hearings on the subject of suspension and debarment of contractors who had defrauded or had otherwise performed irresponsibly in contractual relationships with the Federal Government. And, just last week, 2 days of hearings were held on the subject of fraud in home health care programs which are administered by the Department of Health and Human Services.

In each of the issues which we examined in those respective hearings, one major problem stood out rather glaringly. The problem was two-pronged, in fact. The problem was the lack of conscientious scrutiny, combined with the lack of meaningful follow-up action, by governmental officials against instances of fraud and/or abuse within Federal programs.

That two-pronged problem will no doubt be addressed in the testimony provided today. In fact, the three particular witnesses today probably provide almost an ideal setting in which to wrestle with this problem.

I'm certain that a basic component of the mission of the President's council on integrity and efficiency is to focus on instances in which governmental officials are lackadaisical in scrutinizing programs for instances of fraud. I'm certain that the mission also focuses on instances of no follow-up action when such follow-up action would appear to be the logical remedy.

And I'm equally certain that a vital part of the mission of the General Accounting Office is to focus on that two-pronged problem. That is in evidence almost every time the GAO issues one of its investigative reports. That is also in evidence in their report which we'll discuss today.

Finally, I'm certain that when the Merit Systems Protection Board focuses on employee performance, it reviews instances in which employees or supervisors have attempted meaningful follow-up to either report or correct fraud. Since its creation as a result of the Civil Service Reform Act of 1978, MSPB's focus generally has been on examples of negative repercussions of such efforts. Those repercussions often take the form of reprisals.

I believe it is imperative that we continue to hammer away at fraud in Government. If the "junkyard dogs" within the agencies who are ripping out and chewing up fraud can combine their efforts with all us "junkyard dogs" located up here on the dais, as well as on the witness stand, then we might be able in the future to convince any would-be perpetrators of fraud to realize that finally the Federal Government's bite is getting to be worse than its bark.

Again, Mr. Chairman, I applaud you for initiating this most timely and valuable hearing.

Chairman ROTH. Thank you.

I would like to congratulate you for your leadership in this area, and the diligence with which you are pursuing this problem. I confess that one of the most shocking things that seems to be coming out of these hearings are, as you stated, the lack of internal controls that make possible the kind of exploitation we witnessed last week. This deeply bothers me. I don't think it is surprising that people are going to take advantage, if the advantage is available. I, am also shocked by the lack of followthrough and the lackadaisical attitude on the part of Federal managers. I am tired of the well-worn phrase. "We will study it for the next 12 months and then maybe we will do something." These are things I think we are going to have to address.

Senator Rudman?

Senator **Rudman**. Thank you, Mr. Chairman.

I don't wish to make an opening statement at this time.

Chairman **Roth**. Thank you.

Senator Mattingly?

Senator **Mattingly**. I don't care to make one at this time either, Mr. Chairman.

Chairman **Roth**. Senators Percy and Sasser have opening statements which we will insert in the record at this point.

[The opening statements of Senators Percy and Sasser follow:]

Opening Statement of Senator Percy

Much has been said about how much of the Federal budget is wasted every year due to wast and fraud. I have seen estimates ranging from $100 million to $100 billion. In our efforts to assign a dollar figure to this problem, we may be overlooking the most serious consequences of all: the taxpayer's loss of confidence in their government. When Uncle Sam squanders public funds taxpayers lose confidence in their leaders and the programs that are so important to many Americans.

Much of what we hear today will not help to inspire confidence by the taxpayers in their government. Witnesses will testify that fraud is widespread throughout the Federal Government and that procedures for dealing with it are inadequate. We will be told that agencies have often ignored Federal employees who have come forward to report fraud. This is especially distressing to me since one of the cornerstones of the Civil Service Reform Act of 1978, of which I was a sponsor, was that Federal employees should be given the freedom and protection to report wasteful and illegal activities in government. Apparently, in spite of these reforms, employees are afraid to report fraud because they assume nothing will be done, and even fear reprisals against them.

There is no question that some progress is being made in combatting waste and fraud. The establishment of the offices of Inspectors General has provided an independent focal point for fraud prevention and detection. In addition, the new administration, and OMB in particular, has moved promptly and decisively to reduce wasteful spending in government programs. For example, the President moved swiftly to crack down on those defaulting on billions of dollars in federal debts.

In view of the many sacrifices we are asking our constituents to make in our efforts to curtail federal spending, we must make the strongest possible effort to squeeze every last bit of waste from government programs. We simply cannot afford to do anything less.

Opening Statement of Senator Sasser

Mr. Chairman, Thomas Jefferson once said that eternal vigilance is the price of liberty.

I might add that, since I came to the United States Senate, I have learned that such vigilance is the price we have to pay—if we want to keep our Government free—free of waste, fraud and mismanagement.

Vigilance in internal controls by Federal agencies is necessary. Vigilance by Federal employees and by the American public is necessary. And vigilance through congressional oversight of Federal agencies and programs is necessary

For these reasons, Mr. Chairman, I am pleased that you have called this morning's hearing—and that you intend to conduct additional hearings into the problem of waste, fraud and mismanagement in the Federal Government.

This morning's hearing and future hearings are—and will be—a part of the never-ending vigilance that is needed. Our work will never be done as long as someone figures that he can cut a corner—pad a payroll—or cheat on a Government loan.

I am also pleased to see that the General Accounting Office is testifying this morning. Few agencies have been so active or so productive in helping to check waste and fraud in the Federal Government.

Through the establishment of a nationwide, toll free fraud hotline 2 years ago—at my suggestion, I might add—GAO has been able to act on allegations of waste and fraud throughout the Federal Government—as well as measure patterns of behavior that can help to strengthen the anti-waste battle in the future.

Today, we begin to face that future. I like the theme of GAO's prepared statement—that an ounce of prevention is worth a pound of cure.

As one who's worked for years at curing waste and fraud in the Federal Government, I am anxious to join my colleagues and others at working on prevention—knowing full well that we will have to remain ever vigilant in this effort.

Thank you.

Chairman ROTH. Dr. Harper, I welcome you here again. We are getting to be old buddies. [Laughter.]

You play a very key role in this whole area of good management in Government. As I recall, you have been appointed by the President as Chairman of the new Council on Integrity and Efficiency in Federal Government. We look forward to your remarks.

As is the practice here, you may either read your remarks or summarize.

Without objection, they will be included as read.

TESTIMONY OF EDWIN L. HARPER, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY HAL STEINBERG, ASSISTANT DIRECTOR OF OMB FOR MANAGEMENT

Mr. HARPER. Thank you, Mr. Chairman.

I will summarize my remarks and submit the written statement for the record, if I may.

I would like to begin by thanking you for your leadership in this area, you and other members of this committee. I think you have clearly taken the lead, not only this year, but in years past, in trying to begin the war in a serious vein on fraud, waste, and abuse in Government.

I would also like to note that before I begin, that I am accompanied today by Mr. Hal Steinberg, who is the Assistant Director of the Office of Management and Budget for Management.

Mr. Steinberg, before he joined OMB, was a senior partner at one of the "Big Eight" accounting firms. Thus he is very familiar with audits and investigations into fraud and waste activities.

We are very pleased to have the opportunity today to discuss three important issues: The Merit Systems Protection Board's study on whistle blowers; the General Accounting Office's report on fraud in Government programs; and Senate bill 864, the Financial Integrity Act of 1981.

I would like to conclude my opening remarks, then, with an assessment of what we feel are some priorities of legislative needs. Each of the three issues, the first three issues, recognizes some significant problems that must be addressed, offers some major opportunities, and I think, will have some beneficial impact. We are certainly in accord with and support the basic objectives, I think, expressed in the recommendations of all three reports.

First, the Merit Systems Protection Board's study.

The findings that we have made through the individual inspectors general certainly confirm that the MSPB findings that almost half of the people surveyed had observed some incident of fraud, waste, or abuse, personally observed it within the last 12 months, and yet didn't report it because of their major concern that nothing would be done about it. The President has expressed his concern in a statement of April 16 about the study, emphasizing that one of the things that he wants to do is change this attitudinal environment so that people will feel encouraged; will feel comfortable coming forward and identifying examples of fraud and waste which they find.

The President's Council on Integrity and Efficiency is working with the Merit Systems Protection Board to follow up on the findings of that study. Chairman Prokop briefed the Council at its May 4 meeting.

We were also joined by Ken Blaylock of the AFGE. He emphasized the employees' concerns and desires to help in the attack on fraud, waste, and abuse.

The inspectors general, I think, are in an excellent position to follow up on any of the problems cited by the Merit Systems Protection Board. The Council itself suggested that the Merit Systems Protection Board do another survey in 2 years. The purposes of that survey would be to gage whether or not, in fact, we had made some real improvements in changing the attitudes.

One of the things that was of concern there was the fear of reprisal that conscientious Federal employees who step forward to cite fraud, waste, or abuse might experience. At the President's request, his counsel, Ed Meese, sent a letter to the Special Counsel for the Merit Systems Protection Board and to Chairman Prokop.

If I may just quote briefly from that letter.

> Until recently, whistle-blowing had approximately the same hazards as a citizen's arrest. Things have changed in that now we have inspectors general to whom individuals can turn over allegations of fraud, waste, and abuse, in confidence and with confidence.
>
> Furthermore, the Inspector General Act and the Civil Service Reform Act have added significant procedural protections against reprisals.

Then the letter went on to say that,

> The special consideration I am asking for whistle-blowers is that their grievances be considered on an accelerated basis. True whistle-blowers can be under great pressure and we owe them an accelerated investigation of any claim of reprisal that they have and appropriate action to protect themselves against any such reprisal.

We are developing additional steps among the IG's and at the Council to make sure that we derive the full benefit from the Merit Systems Protection Board discussion, and to assess the extent and significance of the referrals that we receive.

One of the things that you will find with the written statement I have submitted is a matrix which indicates the current status of our efforts to inform Federal employees in all of the agencies as to the existence of the Inspectors General Office, its function, and the availability of hotlines with which they may communicate to the inspectors general.

The General Accounting Office's report, we think, is a very valuable study. I think it is important to note that an important segment of that study covers the period prior to the enactment of the Inspectors General Act of 1978; that the primary conclusions that fraud is costly and widespread; that fraud controls are weak, and that offenders face minimal chance of prosecution, I think these were all valid. To some extent, they are probably valid today, but I think, in part through the initiative of the members of this committee, that things have changed, and that some real progress is being made as a result of the enactment of the inspectors general program.

The General Accounting Office briefed senior OMB staff on the results of their report on May 7. We did have an opportunity to review the draft report prior to that time. One of the things that we were pleased to see, and I think that the members of this committee can take some pride in, is the fact that the GAO did feel that there was some real progress in the fight against fraud after the enactment of the inspectors general program.

One of the other concerns that the GAO highlighted was the need for administrative remedies in addition to those of full litigation and criminal process.

The Council on Integrity and Efficiency has formed a Committee on Administrative Remedies. That committee is chaired by Don Devine, the Director of the Office of Personnel and Management. The purpose of the committee is to try to develop proposals for creating a full range of remedies which can be used where the fraud, waste or abuse is found in Government; and where it may not be appropriate, to proceed through the normal channels with the Justice Department.

While the GAO report specifically focuses on the issue of fraud, the problem of waste and abuse may be equally, if not really much more, significant. If a fraction of a percent in a $700 billion budget is wasted, the amount is, indeed, staggering.

Thus, it is important that we keep both fraud and waste in perspective as we pursue this area. We think that there are some significant areas of progress in fighting waste, as well as fraud.

We are pursuing the implementation of an aggressive debt collection program requiring agencies to pinpoint responsibilities for collecting debts owed the Federal Government; preparing detailed plans to make those collections; identify specific actions to resolve issues; establish timetables for resolving those issues; and finally, reporting to the Office of Management and Budget on their progress.

As this committee knows, we are seeking legislative assistance to strengthen the debt collection activities, especially for overdue and uncollected debts which are estimated to be over $25 billion today.

In another area, you are probably also aware of the fact that the President has called for a moratorium on Government periodicals, pamphlets and audiovisuals, that this was directed by the President on April 20. OMB issued a bulletin implementing this directive on April 21. By August 1, we anticipate having, for the first time, at least a report which will size the magnitude of Federal expenditures in the area of periodicals, pamphlets, audiovisuals, and other Government PR.

It is interesting that the visibility which the President and this committee have given the fight against fraud, waste, and abuse has generated a tremendous response from the public. Here, we have examples of hundreds of letters coming in weekly, many of which contain solid leads, and we have already gotten results on a number of them which we may, if you would like, share with you later.

The principal GAO report recommendation focused on improving internal controls assigning accountability to agency heads and recommended passage of H.R. 1526, which was similar to S. 864.

We endorse the objective of improving internal controls to prevent fraud, waste, and abuse, and certainly, we support the objective of S. 864, the Financial Integrity Act, but would suggest that it might be more effectively achieved by administrative means.

In fact, we have processed today an OMB directive to the executive agencies on the subject of internal control. We believe that this circular may obviate the need for additional legislation in this specific area.

Specifically, the circular would result in OMB approving internal control directives issued by the agency heads that are tailored to their particular programs and organizations.

It would also result in production of reports on the adequacy of each individual agency's systems of internal accounting and administrative control. It would also call for the evaluations of agencies' internal control systems and compliance with them. It would also call for the clear assignment of internal control responsibilities; and finally, call for the consideration of internal control issues in the performance appraisals of program managers.

This circular was developed by an interagency task group which included the General Accounting Office in its deliberations. We feel that this circular, in fact, fleshes out the internal control concepts embodied in S. 864 and provides procedures for assuring effective systems.

There are, however, some other priority legislative needs, some proposals, in fact, before this committee, which we feel serve the policy objectives of S. 864, by strengthening internal control systems to minimize fraud and waste. I think the issue is only where should we place our emphasis? We feel that we are already gaining some important momentum in the areas of debt collection, expanding the statutory IG program, and the use of the single audit.

The President has asked for legislative assistance from the Congress, specifically in the area of debt collection. We are working with the members of this committee. We have submitted a specific legislative proposal on May 15 to strengthen the ability of the Government to collect the debts owed it.

The President has also endorsed and asked for an expansion of the inspectors general program to cover precisely, as Senator Roth mentioned in his opening statement, the Department of Defense, as well as the Departments of Justice and Treasury.

The administration supports legislatively mandated inspectors general in all of these major departments. We do feel that there is a need to provide statutory coverage which recognizes some of the unique characteristics of the agency mission and would like to work with this committee to assure a strong and effective program.

With respect to the single audit, Chairman Roth's bill, S. 807, has very high priority, in our opinion congressional support for the use of the single audit for each recipient of Federal assistance eliminates the need for grant-by-grant audits, and, we feel, contributes to improving the effectiveness of the audits and the management of grant programs.

We would urge the committee to support these proposals, and are happy to respond to any questions which you might have at this time.

Chairman ROTH. Thank you, Dr. Harper. In your testimony, you state that there is an estimated $25 billion in debts due to the Government, aside from waste and fraud in Government. You also discussed the expansion of the inspectors general program to the Department of Defense and Justice, and I am pleased that the administration is supportive of that. We hope that these efforts will help dramatize the need for stronger accounting and auditing procedures.

It is my understanding that you have a weekly IG report with you today. I wonder if you would care to comment on this weekly report?

Mr. HARPER. Yes, sir, we do. Now that the Office of Management and Budget is involved in serving as staff to the President's Council on Integrity and Efficiency, one of the things we have done is to begin to put together on a regular basis a weekly report highlighting some of the items identified by the Inspectors General and their activities in the prior week.

Just before coming up here this morning, I brought this week's issue which contains a number of items which I think indicates the effectiveness of the program which this committee played a key role in enacting, and which this administration is dedicated to making very big with this program. I would like to, if I may, take a couple of moments to cite a number of the things that came out just in this week's program alone.

They range from very surprising items at the Veterans' Administration, to some others which might be more expected.

For example, a grand jury indicted an agency physician and researcher on 18 different counts for removing and selling human remains. Two other VA employees which had previously been indicted also pled guilty. These indictments follow a 1-year investigation by the inspector general, the FBI, and the U.S. attorney.

From the Department of Transportation, there they found thefts in airport concessions. The Department of Transportation's Inspectors General Office has just completed a successful investigation that resulted in a grand jury indictment of an agent cashier on charges of embezzling more than $10,000 from various concessions at one of the major airports in the Nation.

At the Labor Department, the Inspector General there has played a role in the indictment of former management level employees of the Mine Safety and Health Administration, Department of Labor. They were indicted for conspiring to present false and fraudulent documents to the government.

In H. & H.S., on April 21, seven individuals were indicted by the Shelby County Grand Jury in Memphis, Tenn. Two separate indictments were returned against each individual; one for food stamp violations and one for AFDC fraud. These indictments resulted from joint investigations by the Inspector General in HHS, USDA and by the State of Tennessee.

Also, in HHS, auditors found from the Inspectors General Office that a major State in the South, South Carolina, had claimed $1.8 million in public assistance administrative costs which were not allowable during the 1-year period.

Also, in an audit in the State of Alabama, the Department of Education, again lead by the Education Office of the Inspector General, found over $400,000 had been paid on unallowable expenditures. These funds should be recovered by the Federal Government as a result of the efforts of the Inspector General.

Chairman **Roth**. I gather that this sort of weekly report will be issued regularly?

Mr. **Harper**. Yes, sir. We feel it is important to try to keep in focus the fact that there are—well, there are a lot of problems. There are also some positive results already coming from the inspectors general program.

Chairman **Roth**. I would say that if we are going to change the attitude in Government generally, it is important that there be given some recognition where the administration and the inspectors general are successful in uncovering fraud and abuse. I am very concerned that at least half of our Federal employees feel it is not worthwhile to disclose fraud or abuse because nothing will be done by their supervisors. I think there are a number of reasons for this. One of them is that, and let me be frank, new administrations are always enthusiastic about finding fraud until it hits home. I think that it is very important if we are going to have a successful antifraud, anticorruption program, that we pursue it vigorously, irrespective of where the shoe drops. There cannot be, what has been perceived in the past, an effort to cover up or downgrade those cases just because they were politically embarrassing.

One of the questions I would like to ask you, Dr. Harper, would it make any sense to try to give those employees who disclose fraud some recognition, conceivably some type of financial recognition for the savings they are making for the Government?

Mr. **Harper**. I think that may be appropriate. One of the other things which our Council has done is to create a Committee on Incentives. The specific purpose of this Committee is to address the very issue that you are talking about right now, that too often, I feel that the incentives in government are really perverse to good management and to ferreting out fraud, waste, and abuse.

If I may, I would call your attention to one other item that has recently happened. The Inspector General in the Small Business Administration created an Advisory Committee which was composed of employees within the agency. He asked these employees to assist him in identifying waste, to root out fraud and waste in the SBA's disaster loan program, which has been the location of many very serious problems.

The President took one initiative which is certainly open to him, and that is, he specifically cited in personal letters of commendation to each of the employees serving on that Committee his personal appreciation for their assisting in the efforts to root out fraud, waste, and abuse in this SBA program.

I think that may well serve, this advisory committee approach involving honest, efficient, dedicated Federal employees, that that kind of an approach may well serve as a model in other agencies.

Chairman ROTH. I agree with you. I think it is extraordinarily important that it be clear to employees that they are expected to disclose fraud, and that doing so is a plus to them in their careers, and that they will be given at least some recognition for their honesty and courage.

I would like to just go back for a minute. It has been mentioned that there is as much as $25 billion now in uncollected claims and bad debts. Do you have any guesstimate as to what percentage of those could be collected by actively pursuing these claims?

Mr. HARPER. I would hesitate to hazard a guess as to what percentage of a specific set we will be able to recover.

Part of the things that I find so astonishing, coming from the private sector to the Government and focusing on this particular issue, is the inadequacy of Government records with respect to the funds owed the Government. For example, the Department of Energy has a program; $25 million was owed the Government. Of course, in the private sector, one of the key things you are interested in is how long has that debt been owed, so that you know it is past due. They were unable to age over $4 million of that $25 million owed the Government.

I suspect they are probably all past due now if they haven't been collected, because that data comes from September 1979, kind of astonishing in itself, but that was the last time, and as far as I know, the only time that the Federal Government ever made a comprehensive analysis and brought together in one place what was owed it. Thus, I cannot come up with a specific percentage figure, but I think we should be able to do that, once we get a better handle on this data.

We are beginning to get some systems into place so that we can, on a more regular basis, know where we could stand on our receivables.

Chairman ROTH. I would ask that you submit that information to the committee when you develop it. I think it is shocking to the American taxpayers, when they realize the dimensions of this problem.

Mr. HARPER. Yes, sir. In the area of debt collection, simply those funds which are owed the Government today at current interest rates, are costing over $10 million a day. That is $10 million of additional moneys that the American taxpayers have to put forward simply because those debts and loans are not being repaid.

Frankly, the Government isn't doing a good enough job toward those receivables.

Chairman ROTH. One more question, and we will limit our questions to 10 minutes because we have three speakers. We can have a second round, if necessary.

I would like to point out that the GAO report is limited to detected fraud in agencies. It does not include fraud in Federal programs which State and local jurisdictions had primary investigatory responsibility, for example, food stamps, medicare and medicaid. Those frauds such as your food stamp case, are not included in this review. As a result we are, indeed, just talking about the tip of the iceberg.

My final question goes to a point that was made earlier by both Senator Cohen and myself, the lack of followthrough in Government, in correcting abuse and fraud. The GAO report shows that those committing fraud are either not being prosecuted or being given liberal repayment terms that are not even being collected.

I think this underscores our concern about lack of enforcement. Do you have any comment on that?

Mr. **Harper**. Yes, I do.

In the private sector, from the experiences I have had there, where an employee had been found to be suspect to the satisfaction of management that they may have been involved in a serious form, more often than not what happens is that the individual is confronted with the information and given the opportunity to resign.

I have heard that many times in the Federal Government instead what happens is that the individual continues in the post they have already had. It seems to me that this is a very poor example for others who may know of the abuse or may even have been witnesses to the abuse to see someone who in their eyes, anyway, has undermined the integrity of their agency, to continue. It is, indeed, absolutely important to maintain due process and to make sure that individuals' integrity is not wrongfully impugned in any way.

But, on the other hand, I think that it may be that there are instances where administrative remedies not presently available, perhaps, need to be explored. That is why we have established this Committee of the Council on Integrity and Efficiency to look into and study administrative remedies that might accelerate resolution of some of these issues.

Chairman **Roth**. We will be very interested in hearing your recommendations in this area.

Mr. **Harper**. On the issue of followup, if I may comment on that briefly, one of the other things which the President asked, directed, each of the agency heads to do was to appoint a specific individual, not a box in an organization chart or a title, but he asked each of the agency heads to name a person who has personal responsibility for following up on the recommendations of the Inspector General and of those recommendations of the General Accounting Office. So it is a matter of personal responsibility, identified responsibility for followup that I think you will find in this administration.

I am hoping that we will be able to significantly improve on the record of executive branch followup.

Chairman **Roth**. My 10 minutes are up. We follow the early bird rule that the Senators question in the order that they appear. So I would call Senator Cohen.

Senator **Cohen**. Dr. Harper, when signing the Executive Order 12301, the President said that:

> We are going to follow every lead, root out every incompetent, and prosecute any crook we find who is cheating the people of this Nation. Pretty strong language. Also, this Executive order which created the Council on Integrity and Efficiency, states that part of the mission of the Council is to develop policies which will insure the establishment of a corp of well-trained, highly-skilled auditors and investigators.

Last week the Permanent Subcommittee on Investigations held 2 days of hearings on fraud in home health care programs, administered by the Health Care Financing Administration, HCFA. The Deputy Administrator of HCFA reported that last year the audit function which HCFA supervised returned $4 for every $1 spent on the audit process, which is a pretty good return. He also reported that, for fiscal year 1982, they are faced with budget cuts which would reduce the audit process by 60 percent.

I realize that all parts of the Government have to suffer some reduction, but in view of the cost-effectiveness of getting $4 back for every $1 invested, why are we recommending 60-percent reduction in the audit function?

Mr. **Harper**. I have not personally studied the HCFA situation, but one of the things that I think is the case whenever we look at the issues of the cost-effectiveness of audits, that we have to find where is the inflection point? Clearly, if everyone in the United States were an auditor, we would still not be returning $4 return for each dollar invested in an audit. Exactly where that inflection point is with a diminishing point of return is hard to say.

Senator **Cohen**. It is not a question of diminishing returns in the home health care industry. We saw a billion dollar industry with practically no supervision. I think the intermediaries are conducting something like 1,100 audits in a billion dollar program.

So it is not a question of having reached that point of no return and now we cannot all be auditors. There you had a shocking case of figure-to-audit, in my judgment, with a program that is so large, in which it was so easy to exploit. We have a problem where there is little chance of detection, there is little chance of prosecution, and there is little fear of punishment. If you take that particular formula, you have got one giant ripoff that is developing in a very worthwhile program.

I guess I want to know, how can we protect a program, which is going to have considerable political support, which entails moving people who don't have to be in nursing homes back into their own homes so they can stay in their own homes? You have a tremendous potential for fraud and abuse, yet we have virtually no controls in the system that I saw, in the 2 days we had extensive hearings.

Now we have the audit function being cut back by 60 percent. Isn't that an invitation to more fraud and abuse?

Mr. **Harper**. Up until this point, we haven't gotten into the internal administration of the resources within departments. We have looked at the resources among the departments and of totals. We have indicated that with respect to the resources for the Inspectors General, that it may be appropriate to take a second look and adjust those resources. In fact, we have done so with respect to a couple of agencies. Up to this point, we have not had a request to change the resources for HCFA that I am aware of at the current budget level.

Senator **Cohen**. I think one of the complaints also during the hearings was that after 4 years of abuses discovered in 1977, well before this administration, no one has been fired; everything goes on, business as usual.

You have the same problems just continuing.

Let me ask you this: You indicated that you felt that every department ought to be subject to this effort to clear up fraud and waste and abuse. I mentioned during my opening statement the issue of suspension and debarment. Are you familiar with that procedure?

Mr. **Harper**. Yes.

Senator **Cohen**. Do you think that the Department of Defense ought to be subject to a uniform application of "presumptive validity of debarment?" In other words, when one firm is debarred from doing business with a particular agency, based upon either fraud or incompetence or unreliability, should there be presumptive validity given to that agency's proceeding to apply to the Department of Defense as well?

Mr. **Harper**. This is an issue that we have studied. I think that is a very interesting concept.

Senator **Cohen**. Let me stop you. The fundamental issue is, should the Department of Defense be treated differently—and they are going to be treated differently—but should they be treated differently? Say an agency has determined a contractor has defrauded the taxpayer and the Government, and that contractor has been irresponsible or incompetent. It should no longer be given contracts for a period of 3 years with that particular agency. As a matter of policy, should that contractor be able to walk across the street to a Defense Department agency and then do business? Shouldn't there be some presumptive validity given to that department proceeding?

Mr. **Harper**. It is my personal opinion that there should be some presumptive validity to that finding.

Senator **Cohen**. Is that going to be your recommendation? I ask you this because the Department of Defense opposed the amendment that I offered. They opposed it, even though there was an escape hatch, even though there was a qualification saying that "If the DOD certifies to GSA that it is a sole-source contract, we have to do business; we have to get this material. Otherwise, it endangers national security." Even though that was written into the amendment, they still opposed it. Can you give me a justification as to why we should create an exception for DOD, that has a budget well over $220 billion?

Mr. **Harper**. I am not sure that there is a good reason to make that type of exception. One of the things that we are doing is having both our Office of Federal Procurement Policy, working with a committee of inspectors general, to investigate that very problem of debarments and suspensions. Certainly in the private sector, we would have the liberty to discriminate against those who would defraud the company.

Senator **Cohen**. We had considerable hearings on "hurry-up spending" last year. We came to the conclusion that, as a result of hurry-up spending practices by Federal agencies, the taxpayer loses an estimated $2 billion a year. Hurry-up spending is when agencies wait until the last 3 weeks or the last month of a fiscal year and then start letting out all the contracts. Agencies purchase items that are not necessary for the operation of the agency, and, more so, they sign contracts that have no competition involved, with very little in the way of pre-audit surveys.

So it would cost the taxpayer about $2 billion a year. We went through this. OMB has always issued its circular once a year saying, "Be careful not to abuse the system and don't indulge in hurry-up spending," but it has been going on since 1923. I was wondering what you propose today. Have you ever heard the name Joe Pate?

Mr. **Harper**. I am sorry, I haven't.

Senator **Cohen**. Mr. Pate was a procurement officer with LEAA. He blew the whistle on LEAA as far as their procurement practices were concerned. He was not fired, but he was so harassed on the job that he took early retirement. My question is, what are you doing about procurement practices in the Government as far as hurry-up spending is concerned? Also, how do you protect whistle blowers against not just being fired, but being harassed into retirement?

Mr. **Harper**. With respect to the hurry-up spending, I think that, No. 1, I will admit there have been OMB circulars in the past about avoiding such expenditures in the fourth quarter.

Senator **Cohen**. The first one was in 1923, as I recall.

Mr. **Harper**. Was it? That is 2 years after OMB got started, or the Bureau of the Budget.

In any case, I think these have been drawn progressively tighter and tighter with respect to apportionment. I think that one thing that the Office of Management and Budget, under its current leadership and mandate, has proven, is that we are fairly tough on expenditures and have drawn a fairly tight noose on letting outlays occur. So I think that we will have a handle on it, more than has ever been the case before.

Thus, I think that we will be able to avoid the major problems that have plagued fourth quarter expenditures in prior years.

With respect to whistle blowers per se, I am not quite sure when the incident involving Mr. Pate took place.

Senator **Cohen**. Last year.

Mr. **Harper**. Last year? In that case, perhaps someone familiar with the facts of that particular case had better respond to it, rather than I. Certainly, it is my impression that the work of the Merit Systems Protection Board and its Special Counsel, I think, offer real hope that this kind of thing will not be tolerated, and that if there are any reprisals of any kind—and firing is the most obvious kind—because I know that the Merit Systems Protection Board sees other kinds of harassment and is concerned about those, that they will be resolved.

The other thing, as I indicated, is that the President is concerned about conscientious Federal employees who see fraud and waste having the opportunity to call attention to that and not having any reprisals levied against them, and thus, to make sure that any grievance they have about a reprisal, a complaint about a reprisal, is considered as expeditiously as possible. He has personally asked the Special Counsel for the Merit Systems Protection Board and the Chairman of the Board himself to move those cases out of line, to give them accelerated consideration so that those issues are resolved and these kinds of things don't drag on; and if a person is harassed, that it is stopped.

Senator **Cohen**. As a result of the survey, I guess we have got a situation where 45 percent of the people who responded said they knew of cases of fraud and abuse; 70 percent of those 45 percent did not report it, because they didn't think anything would be done about it. You have one of these catch-22 situations. You have got the failure of enforcement defers the reporting of fraud, and the reluctance to report fraud only lessens the likelihood of enforcement. So we have got to do something to break that cycle.

Mr. **Harper**. You are absolutely right. I commend again the chairman and members of this committee for highlighting the problems and for giving us the opportunity to comment publicly on our concerns on this.

Senator **Cohen**. My 10 minutes are up, Mr. Chairman.

Chairman **Roth**. I would just like to underscore the point that Senator Cohen made, because it is a continuing problem; that is, yearend purchasing. I can recall years ago, more than I care to remember, when I was in ROTC, the PMSV said there is absolutely no excuse at any time to have any funds left in your appropriation. I think that is a deeply rooted concept or principle of administration in Government, and Senator Cohen has been a leader in trying to do something about this. I would like to put the various agencies on notice that either Senator Cohen's subcommittee, or the full committee will hold hearings at the end of the fiscal year to see what real progress is being made in this area. It is just unconscionable that the practice has developed of managers trying to make sure they spend that last dollar of the taxpayers' money.

Mr. **Harper**. I think that is an excellent idea. It may give us additional leverage at OMB to make sure many of the agencies don't get away with fourth quarter spending because we are into a fiscal crisis.

Chairman **Roth**. We will be happy to write you a letter to that effect.

Mr. **Harper**. Thank you.

[The letter referred to follows:]

U.S. Senate,
Committee on Governmental Affairs,
Washington, D.C., June 3, 1981.

Hon. Edwin L. Harper,
Deputy Director, Office of Management and Budget,
Washington, D.C.

Dear Mr. Harper: During a May 19 hearing before the Senate Governmental Affairs Committee, we indicated to you our continuing concern over unnecessary and excessive year-end spending by federal agencies.

We are writing to request that the Office of Management and Budget, or the Office of Federal Procurement Policy within OMB, closely scrutinize fourth-quarter spending in fiscal 1981 and report to us your evaluation of agencies' spending patterns, as well as any examples of unneeded purchasing, unnecessary sole-source contracting, or other undesirable practices revealed by your review.

So-called "hurry-up spending" has concerned the Governmental Affairs Committee for some time. Last year, the Oversight of Government Management Subcommittee completed an extensive investigation of year-end spending practices. To our knowledge, the Subcommittee's study was the first attempt to comprehensively catalogue the costs and causes of rushed and needless spending by federal officials before the close of each fiscal year.

During a year of investigations and three days of public hearings, the Subcommittee closely examined fourth-quarter spending in ten federal agencies and departments responsible for billions of dollars in contract expenditures each year. Every one of the agencies and departments reviewed by the Subcommittee had "hurry-up spending" abuses.

Based on an analysis of the extent of needless expenditures, unnecessary noncompetitive buying practices, inefficient administration and use of public and private resources, and other problems resulting from the year-end spending surge, the Subcommittee concluded that current management practices responsible for hurry-up spending waste at least two billion dollars each fiscal year.

We believe that the elimination of hurry-up spending would save at least this amount each year and would demonstrate to the public the Administration's firm commitment to curtailing government waste and mismanagement.

The Subcommittee's report on its findings, a copy of which is enclosed, criticized the failure of OMB and the Office of Federal Procurement Policy to oversee the management practices of the executive branch.

In the past, OMB has routinely issued memoranda cautioning agencies against unnecessary year-end spending. (In fact, as early as 1921, the first director of the newly-established Bureau of the Budget wrote a memorandum criticizing excessive fourth-quarter expenditures.) That hurry-up spending appears to have continued largely unchecked for more than fifty years demonstrates the ineffectiveness of this annual memorandum.

We believe that OMB needs to implement stringent controls over spending and should aggressively oversee agency compliance with its management directives.

The Subcommittee's recommendations for curbing hurry-up spending are found on pages 39 through 43 of the enclosed report. Specifically, we believe that:

(1) OMB should issue a directive to all federal agencies requiring them to implement advance procurement planning, including agendas scheduling procurements so as to avoid disproportionate procurement activities at the end of the fiscal year. Agencies which already use advance procurement planning have had significantly fewer year-end spending problems. It is our understanding that OFPP is implementing this crucial recommendation.

(2) OFPP should maintain an accurate data base of information to allow Congress, department Inspectors General, and OMB to assess the competitiveness of procurements throughout the year, but particularly in the fourth quarter, when noncompetitive procedures are most likely to be used.

(3) Substantial new restrictions should be imposed on the use of sole-source contracts.

(4) Federal employees should be held accountable for good management, and the procedures for appraising civil service performance should provide incentives for prudent management.

(5) Inspectors General and other audit personnel should thoroughly audit year-end contracts to determine not only technical compliance with the law and regulations, but also whether such expenditures were the result of sufficient competition and were for genuine needs.

While some of these recommendations are outside of the purview of OMB, we believe that your agency's broad powers and overall responsibility for ensuring prudent budgeting enable it to take the lead in eliminating this problem.

We look forward to receiving your report after the close of this fiscal year. Your analysis may serve as a basis for further hearings on "hurry-up spending." If you have any questions or need further information, please have your staff contact either Susan Collins at 224-5538 or Linda Townsend at 224-4751.

With best wishes, we are

Sincerely,

William V. Roth, Jr.,
Chairman, Governmental Affairs Committee.
William S. Cohen,
Chairman, Oversight of Government Management Subcommittee.

Chairman Roth. Senator Rudman?

OPENING STATEMENT OF SENATOR RUDMAN

Senator Rudman. Thank you very much, Mr. Chairman.

Let me just make a comment, Dr. Harper, following on the dialog you had with my friend from Maine.

I think that we must be reaching a level of sophistication in this Government bordering on lunacy when anyone appears either overtly or covertly and supports, in any way, the ability of a corporation or a partnership or individual to do business with any part of the Federal Government when that company, individual, or partnership has been found to have committed fraud or other questionable acts with any other agencies of the Federal Government.

When Senator Cohen mentioned this to me on the floor of the Senate last week, I found it inconceivable that the Department of Defense would pose that position for an administration that has credentials. To oppose fraud, waste, and abuse in this Government, it must be universally applied. I hope the message gets back to the proper people that that kind of shifting standard is quite inconceivable for me to understand or for most of my colleagues to understand.

I just wanted to make that comment, because I find this is a very unusual position. Maybe whoever took the position in DOD didn't get the word, but they ought to get the word.

Mr. HARPER. I will have to confess my own surprise, because I do not recall that position having been cleared by the Office of Management and Budget.

Senator RUDMAN. I would hope not.

I just want to ask you several questions regarding an area that, in my view, after listening to testimony before various appropriations subcommittees for the past 4½ months, may be a very fertile field in which to save huge amounts of Federal dollars.

Fraud, of course, must be ferreted out, not only for the money that must be saved, but for the very principle involved. To have strong public support for Government, there must be a perception in—actually of integrity. Unquestionably, abuse falls in the same category. I am much more concerned in terms of saving large amount of money in the waste area and, in particular, the procurement area of the entire Federal Government.

Let me just give you two specific points. I would like you to respond and tell me what plans you have at the level of OMB which, after all, is the arm of the President to do this.

First, there has been ample testimony before a number of the Senate committees in recent weeks of the awarding of sole source contracts and consulting agreements in huge amounts of money under very questionable circumstances.

There have been varied responses from various agencies. What, specifically, are you going to do to get through the entire executive branch of the Government to address that problem? That is my first question.

Mr. HARPER. With respect to contracts, I believe in competitive market economy. I think that should extend and must extend, especially to the Government, and any contracts proposed by the private sector to Government. In those instances, frankly, where I have heard of sole source contracts, I have personally called Cabinet officers or their deputies and asked them to reconsider and to move to a competitive basis for those contracts.

Also, today, as a matter of fact, we are having a meeting questioning an agency about a large, as I understand it, sole source contract. So those that have come to our attention, we are looking at. We have a general procompetitive position with respect to contracts. There may be certain instances under which a sole source contract may be appropriate, but I think they would certainly be the exception rather than the rule.

Senator **Rudman**. The second question deals with the general area of procurement. I will talk about the Defense Department, because I have been listening to their budget requests since early January under the Defense Appropriations Subcommittee.

There seems to be a whole new industry development. In fact, I believe there was a story in the press this week about a whole group of lawyers in this town who specialize in this field, or submitting bids on contracts, particularly in high-technology areas, that are really pushing the State of New York.

The bids tend to be very low. Then when those bids are renegotiated under terms of the contract, which, in fact, have been drafted by counsel within various agencies, the Government just continues to lose those renegotiation battles at the administrative level as well as at the court level, amounting to literally billions of dollars in added costs; the strategy, of course, being that the bidders knew implicitly when they bid that they would have to renegotiate based on the specifications.

What are you doing to look at this whole area of procurement, to tighten these practices, which I believe are costing the Government far more than all the fraud and abuse that you are going to find collectively, in this one particular area?

Mr. **Harper**. The Office of Federal Procurement Policy is a unit that reports to the Director of the Office of Management and Budget. It has the specific responsibility, in fact, charged by the Congress, to come up with a new basic law in the procurement area.

They have been addressing this and all of the other issues in the procurement area.

I think that you are absolutely correct; that there are billions of dollars involved here and billions of dollars can be saved, I think, by better procurement practices. The Defense Department itself, with Cap Weinberger and Frank Carlucci, have been looking at and revising procurement practices there, because they realize the potential for savings in that department.

So I think it is an area in which we already recognize that major savings can be achieved.

With respect to the specifics of new initiatives, new programs in this area, that is the focus of what the Office of Federal Procurement Policy is doing right now as well as, on kind of the enforcement side, the inspectors general, we have formed a committee of our Council on Integrity and Efficiency to address just this issue of procurement and contracts.

Senator **Rudman**. My final question, and a very brief one: There has been a great criticism, publicly, and I have had some interesting discussions privately with some high-ranking Department of Defense and various officials of the services, that the specification process within DOD and other Federal agencies is such that many times specifications are drawn that require the production of a particular item to those specifications when an item that was commercially available could be purchased at a fraction of the cost.

I have various examples in the illustration of the portable electric generators, where the Government paid $18,000 for one with very specific specifications where they could have purchased one on the open market for $4,000 which would have done the job, 95 percent of the job, and it was not in a strategic position that would cause any great difficulties.

What are you doing to try to get the Government to buy things off the shelf instead of spending a fortune?

Mr. **HARPER**. One of the things that overrides the work of the Office of Federal Procurement Policy is to emphasize commercially available products, rather than going to, as you suggested, tailor-made products, which add a substantial cost. It is really unnecessary for the taxpayer to bear.

Senator **RUDMAN**. Dr. Harper, thank you. I have a lot of confidence in the people you have surrounded yourself with. I think you have got that opportunity to address some of these problems. I certainly hope it isn't lost.

Mr. **HARPER**. Thank you.

Chairman **ROTH**. Senator Mattingly?

Senator **MATTINGLY**. Good to see you, Dr. Harper.

Mr. **HARPER**. Good to see you.

Senator **MATTINGLY**. I have a couple of quick questions. One, going along with Senator Cohen and Senator Rudman, having read this material this last night, it is obvious that people in agencies are really not going to come out and testify to waste, fraud, or abuse in the agencies, because for one thing they don't think, anything will be done.

It goes back to the military, everything is wide open. "Go see your top sergeant, go see your general." Very seldom do they ever do it, because they know they have got a corporal there, so they are reluctant to do it. It shows what the President has talked about, that this committee as the leaders are the ones that have to get out in front of it to make sure it happens, which the President has.

In that respect, in the IG—because I think that is personally the way to go to give confidence to these people in these agencies—how many more IG's are you going to hire?

Mr. **HARPER**. Well, we have had to have the program statutorily expanded to cover Defense, Justice, and Treasury. AID and State were covered last year under the 1980 Foreign Service Act reforms. The Synfuels Corporation also has legislation calling for an Inspector General.

We have, at this point, already announced—the President has announced a nomination for all but two of the Inspectors General covered by the 1978 act. Inspectors General have been appointed by the administrator of AID and State.

Also, the Secretary of Defense has created a new position, administratively, in the Defense Department. It is called the Assistant to the Secretary for Review and Oversight, and they choose this title rather than Inspector General because there are scores of Inspectors General in the various services already.

Senator **MATTINGLY**. Is that an in-house person?

Mr. **HARPER**. It is an administrative appointment, yes. To make a Presidential appointment does require the type of legislation that we have supported.

Senator **MATTINGLY**. What I am getting at: The Defense Department is not appointing somebody themselves to fill that position; are they?

Mr. **Harper**. That is the only authority, at the moment, to appoint someone themselves.

Senator **Mattingly**. But the IG right now, he would be coming in as a 15 or so?

Mr. **Harper**. The inspectors general, the statutory Inspectors General all report to the agency head or its deputy by statute. We feel this is where it should be.

Senator **Mattingly**. I knew that the IG had been in Georgia at the SBA. They have done a pretty good job there. I read in the paper they exposed some taking of funds, some misuse also. In the lending arena, money that is in the waste, fraud, and abuse sector, what part did the agency participate in? What percent do you think in the lending agencies are being misused in comparison with other areas?

Mr. **Harper**. I haven't segregated it out in that way.

We have to go back and look by agency and program. We possibly could figure it out, if you would like me to submit it.

Senator **Mattingly**. It is significant?

Mr. **Harper**. It is, yes.

Senator **Mattingly**. Are they going all over the country as they did in that SBA office exposing such abuses.

Mr. **Harper**. Oh, yes. The inspector general in SBA that has been working with new Administrator, Mike Cardenas. I think they are going to be a very effective team in routing out longstanding abuses that have occurred in the SBA lending programs, and for that matter, some grant programs, as well.

Senator **Mattingly**. I am concerned, as Senator Rudman is, that the Department of Defense has a sort of immunity. We both disagree what they should have, but I, on an even keel with that, I think lending agencies of this country have laundered the taxpayers' money—they have misused it. I think that if they are working in these areas and working aggressively, fine; they need more IG's. I think they need to get these people in place as rapidly as possible.

Mr. **Harper**. That is correct. That $25 billion debt of past-due loans in effect is wasting $10 million a day of taxpayers' money that we wouldn't have to pay in interest.

Senator **Mattingly**. That is in the lending institutions, correct?

Mr. **Harper**. Loans, some overpayments.

Senator **Mattingly**. What is $10 million figured out on a yearly basis?

Mr. **Harper**. 365—I will turn that over to Hal.

Senator **Mattingly**. I am curious about the Defense Department.

Mr. **Harper**. It is at least a Defense Department level figure. [Laughter.]

Senator **Mattingly**. What legal authority do you all have to recover this money that is owed the government? What do you need?

Mr. **Harper**. Some of the things that we have asked for—we have asked for a number of things in the debt-collection area, and one of the important ones is the ability to use addresses that have been collected by the Internal Revenue Service, only the names and addresses, to use in the debt-collection effort.

There is also an important move by the GAO working with the Justice Department in confirming that the executive branch did have the authority to use private contractors to assist in the debt collection.

Hal Steinberg has been our key person on developing the debt-collection program. He might like to mention a couple of the other legislative proposals that we have made.

Mr. **Steinberg**. There is a total of nine: The right to be able to use or the ability to be able to use private sector debt-collection agencies, and the ability to be able to disclose outside government, the addresses that we have, correct addresses on the people; the ability to be able to get the social security numbers of persons filing for Federal credit; some additional authorities to the Federal Marshals that are used to collect the debt; making it a Federal crime to attack a Federal debt collector. Right now, it is not a crime to attack somebody attempting to collect a Federal debt. Those are the types of things we are looking for to be able to more effectively collect debt.

Senator **Mattingly**. In conclusion, I think it is important that in order for you all to have success in exposure right now, and success in even prosecuting some of these people in Government, we must decide whether you are going to get cooperation, I believe, from—I don't mean in the Senate, but people in this report, because I don't feel like people in this report are going to do it until you have early success and share problems.

Mr. **Harper**. I think you are absolutely correct.

Senator **Mattingly**. Thank you.

Thank you, Mr. Chairman.

Chairman **Roth**. Dr. Harper, I have just one brief question. First, I would like to say that the ranking Member, Senator Eagleton, unfortunately could not be here this morning because of illness. He wanted to assure you and others of his interest in both the inspectors general, as well as the internal controls issue. My question is directed at the Financial Integrity Act. As I understand your testimony, this has been done, this principle has been accomplished by Executive order, but the administration would not care to see it written into the law.

I wonder why not? It is a good approach. Why shouldn't we insure that this be continued in future years?

Mr. **Harper**. I think that there is a certain degree of flexibility in administering general principles when it comes down to the special power administered on an agency-by-agency basis. I think there is also the issue of change from time to time, that circumstances may change and the President trying to change legislation that he can more quickly without taking up the time of the Congress, appropriately change administrative regulations.

I think that there are some things that it is very, very important to have in the statute; for example, the statutory inspectors general. I think that is a very high priority, and it is something that must be done by statute. As we mentioned in the earlier dialog about the situation at the Department of Defense, the Secretary of Defense does not have the authority to create a Presidential appointment level IG with all of the independence and prestige that comes with that. He can only appoint an assistant to the Secretary.

On the other hand, we can do things in the area of creating administrative procedures, reports, and standards. I believe we can do those fairly quickly, responsibly, and I think responsively. Thus we propose to do that by administrative action rather than by legislation.

Chairman **Roth**. I can understand the need for some flexibility. At the same time, I think the basic requirement that each agency report once a year on the adequacy of internal controls has great merit. I find that the problem in Government is that some of these things are done, perhaps enthusiastically for 2 or 3 years, and then they are forgotten.

So, it seems to me that this is not a bad principle to be maintained.

Mr. **Harper**. Yes. I believe also the inspector general has as a part of their basic responsibility the maintenance of adequate internal control systems. They do have a requirement for semiannual reports both to the Secretary and to the Congress.

Chairman **Roth**. I think Senator Cohen has one more question.

Senator **Cohen**. Just one more.

Dr. Harper, the Executive order that I referred to before stated that "the Council will recognize the pre-eminent role of the Department of Justice in matters involving law enforcement litigation." I was wondering how you would characterize the track record of the Department of Justice in prosecuting or litigating cases of fraud?

Mr. **Harper**. I think that here is a need for administrative remedies as well as litigative remedies.

Senator **Cohen**. Let me go back and give you figures, because there are some 77,000 cases of fraud reported from October 1976 to March 1979. Of those 77,000 reported, 13,000 cases were referred to the Department of Justice, and 40 percent of those were actually prosecuted. So you have roughly less than 10 percent of the 77,000 cases actually reported and identified by agencies, which were ultimately prosecuted.

In your judgment, what is it that is impeding the Department of Justice from going forward more vigorously?

Mr. **Harper**. One of the things that happens—and I have seen this from both the private citizen's perspective and now in Government, that one of the major elements of the prosecutory process is for a U.S. attorney to make a decision that he has a worthwhile case; that given the evidence, he can win.

It is sometimes difficult to convince U.S. attorneys, at least it has been in the past, to take on fraud cases that do not get into big money. It is just that there are only so many prosecutors; so many courts available; so much investigatory time. As the chairman said, fraud is fraud, but on the other hand, if it is not big money, you may even find it difficult to persuade a U.S. attorney to go after him if it is going to cost the Government 10 times more to prosecute the case than the fraud.

I frankly feel that we need to be vigorous, that we need to go after even these smaller cases, where sometimes it will cost the Government more to prosecute that particular case, because I feel in the end that going after some of these smaller cases is going to serve as an example, and other people will think twice before stealing a few thousand dollars, because they think they will get away with it, from the Government.

I think this administration has sent a different signal to the U.S. attorneys across the country, that fraud and waste in Government is a high priority, and they need to recognize that in making decisions about what cases they are going to prosecute.

Chairman ROTH. In closing, Dr. Harper, I would just like to observe that 30 years after we passed the Budget Accounting Act in 1950, 36 percent of all Federal agencies do not yet have approved internal control and accounting systems. So, they are basically in violation of the law, and the 36 percent who are not in compliance control over 50 percent of the entire Federal budget. I think part of the problem has been that in the past, OMB has not been vigorous enough in insisting on compliance with this act. As I said to you in the confirmation proceedings, this is as important to me as the B in OMB. I would urge you to take steps to try to insure that the 36 percent of these departments and agencies do meet these requirements. This, then, carries me back to the idea why I think some of these things should be written into the law.

You may comment.

Mr. HARPER. Mr. Chairman, I have to confess that I was shocked to hear those statistics, the ones you have just mentioned. I expressed great concern to my professional staff:

> What is going on here? Are we in great jeopardy of substantial lawsuits with the taxpayers' dollars as a result of the fact that many of these systems have not received a final sign-off from the General Accounting Office?

I asked:

> Are adequate resources being devoted to the approval of these systems by ourselves and by the General Accounting Office, which, in fact, has that final responsibility to sign off?

If the facts I recall are correct, something like 500-man years at the General Accounting Office are dedicated to signing off on these systems. I was also given an assurance that even though many of these systems had not received a final signoff from the General Accounting Office, that this did not at the same time indicate that there was a tremendous vulnerability to fraud and waste in the system, but in many cases we are talking about gigantic control systems that are only covering hundreds of billions of dollars.

I share your concern that these systems should get the final signoff. I think that perhaps those who are professional accountants and professional auditors would be in a better position than I am to make a final judgment as to how great a danger we are facing as a result of the fact that these systems are not finally signed off on.

If the danger is not great, then I wonder if somehow that the process has slipped, whereby that there is a perception that the systems must get signed off on, otherwise there are problems; and that, in fact, we don't have a system signed off on, and there are not great problems. I think that that issue is properly addressed by the General Accounting Office. I know it is expending substantial resources on the issue, but I guess I leave that as an unanswered question on my part.

I can assure you that we are cooperating fully, I believe, with the General Accounting Office, to make substantial progress in getting the final signoff from the General Accounting Office with respect to all these systems.

Chairman ROTH. We will pursue that matter later.

Again, I want to express my appreciation to both of you at this time for being with us today.

Thank you very much.

Mr. **Harper**. Thank you very much, Mr. Chairman.

[Mr. Harper's prepared statement, with attachment, and responses to written questions submitted by Senator Roth follow. Information submitted by Mr. Harper subsequent to the hearing will be found starting on p. 252.]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Tuesday, May 19, 1981

STATEMENT OF EDWIN L. HARPER DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET BEFORE THE COMMITTEE ON GOVERNMENTAL AFFAIRS OF THE SENATE OF THE UNITED STATES ON RECENT MSPB AND GAO STUDIES AND S. 864

Mr. Chairman and Members of the Committee:

I am pleased to discuss with you today the three important items that you have invited us to address:

- the recent MSPB study on whistleblowing and reprisals;
- the GAO report on "Fraud in Government Programs:--How Extensive Is It?--How Can It Be Controlled?"; and
- S. 864, the proposed Financial Integrity Act of 1981.

I would like to conclude with our assessment of priority legislative needs.

Each of the first three issues recognizes significant problems that must be addressed as we seek to assure that government programs are operated not only free from fraud and waste, but as effectively and efficiently as possible. Each suggests major opportunities for us to pursue to achieve these ends. Each already has had some beneficial impact. We are in accord with and support the basic objectives of all three.

The MSPB Study

The findings of the MSPB study--specifically that forty-five percent of Federal employees responding to the survey said that they had observed or had evidence of waste or illegality during the past year and that employees tended not to report this, because of belief that nothing would be done or fear of reprisal--confirm much of what the Administration has been saying. In an April 16 statement on the MSPB study, the President said:

> "The vital element in any program designed to fight fraud and waste is the willingness of employees to come forward when they see this sort of activity. They must be assured that when they "blow the whistle" they will be protected and their information properly investigated."
>
> "I want it made clear that today this Administration is providing that assurance to every potential whistleblower in the Federal Government."

The President's Council on Integrity and Efficiency, which I chair and on which all of the statutory Inspectors General serve, is working with the MSPB to follow-up on each of the specific cases identified during the course of the study.

MSPB Chairperson Ruth Prokop briefed the Council on the study at our May 4 meeting, and discussed with us suggestions for capitalizing on the findings and results of the study. In addition to referring specific cases to the appropriate Inspectors General, she emphasized the importance , of educating employees about the Inspector General program and educating management to protect whistleblowers.

At the same meeting, Ken Blaylock, the President of the American Federation of Government Employees, also emphasized that Federal employees are concerned about waste and fraud and want a chance to help, but are still concerned about whistleblower protection.

In recognition of the significance of the MSPB study findings, the Council indicated that the individual IGs would assure effective follow-up of the claims that MSPB will refer to them. The Council also suggested that MSPB consider a follow-up study in two years to determine whether any improvements have been made.

We are considering additional steps that the President's Council or OMB might take to realize the full benefit of the MSPB study and to assure Federal employees that we want them to blow the whistle when they have evidence of problems and that they will be protected from reprisals. We are considering doing assessments of the extent and significance of the referrals coming out of the MSPB study to identify any patterns or trends and to then develop specific management improvements to address them. We are also considering information approaches to fill the gap in employee knowledge about and confidence in current mechanisms for blowing the whistle (see the attached table).

A recent letter from Ed Meese to the Special Counsel-Designate of the MSPB emphasized the Administration's position on whistle blowers by saying:

> "Until recently 'whistle blowing' had approximately the same hazards as a citizens arrest. Things have changed in that now we have Inspectors General to whom individuals can turn over allegations of fraud, waste, and abuse in confidence and with confidence. Furthermore, the Inspectors General Act and the Civil Service Reform Act added significant procedural protections against reprisals.
>
> "The special consideration I am asking for 'whistle blowers' is that their grievances be considered on an accelerated basis. True 'whistle blowers' can be under great pressures and we owe them an accelerated investigation of any claim of reprisal that they may have and appropriate action to protect them against any such reprisal."

GAO Report

The General Accounting Office provided senior OMB staff with a briefing on its recently released report on "Fraud in Government Programs. . ." on May 7. Previously, we had had an opportunity to comment on the draft of the report. We believe that the basic conclusions of the report--that fraud is costly and widespread, that fraud controls were weak, and that offenders faced a minimal chance of prosecution--were valid for the time period (primarily before passage of the IG Act of 1978) and universe of the study.

We are very pleased that the report also highlights the point that "Agency inspectors general and the Department of Justice are making progress in the fight against fraud." We intend that this progress continue, and have taken some steps within the President's Council on Integrity and Efficiency to bolster it. For example, recognizing that prosecution of many cases through the judicial system may not be practical, we have established a committee of the Council to address the possibilities and problems of administrative remedies.

This committee will develop a proposal for using the full range of administrative remedies and penalties available against cases of flagrant abuse and mismanagement and in cases of illegal activity where prosecution has been declined.

As the GAO report noted, progress is being made in fighting fraud.

Fraud, however, is not the only--or even necessarily the most signifcant--issue that we must address. I think it is important that we note that the GAO report dealt only with fraud. It did not address the issues of waste or mismanagement, which are probably bigger problems in terms of total cost to the taxpayers. In a $700 billion budget, if every program regularly operated at only a fraction less than 100 percent efficiency, the potential "waste" could be staggering. It is necessary for us to keep fraud and waste in proper perspective, and not allow the dramatic qualities of one to divert necessary attention from the other.

Significant progress is being made in this area as well. Two major steps that we have taken involve a major debt collection effort and the recently imposed moratorium on government periodicals, pamphlets, and audiovisuals.

Recognizing the enormity of the amount of overdue and uncollected debts owed the Government--estimated to be over $25 billion--we have undertaken an aggressive program to improve agency debt collection practices, requiring the agencies to:

- designate an official with responsibility and authority for debt collection;
- prepare a detailed plan of action describing major debt collection issues;
- identify the specific actions and steps to be taken in resolving those issues;
- establish a timetable for accomplishing each

action and step; and

- o report periodically to OMB on their progress in reducing outstanding delinquencies and defaults.

As this Committee knows, we are also seeking legislative assistance to strengthen the debt collection effort.

The recently imposed moratorium on government periodicals, pamphlets, and audio-visuals is another example of steps we have taken to eliminate wasteful spending. On April 20, 1981, the President directed the heads of Executive Branch agencies to impose a moratorium on Federal spending for new periodicals, pamphlets, and audiovisual products within their agencies. The President also instructed OMB to issue guidelines for the moratorium, to assist the agencies in developing specific plans to control spending in these areas and to review and approve the plans developed by the agencies.

On April 21 we issued an OMB Bulletin which directs each agency to eliminate unnecessary Federal spending for the development and printing of periodicals and pamphlets (including those published as part of a contract), and for the production or procurement of audiovisual products (including those used in radio and television advertising). Each agency has been directed to limit the number and copies of periodocals, pamphlets, and audiovisual products to those essential to the accomplishment of agency missions while minimizing the Government's costs to produce or acquire those that are essential.

Concern about waste, as well as fraud, also is reflected in the hundreds of public inquiries and leads that we have been receiving weekly, including some very solid leads, as a result of the President's public statements emphasizing his commitment to eliminate fraud and waste. While the GAO report dealt only with fraud, its principal recommendation also clearly has implications for controlling waste.

The principal recommendation in the GAO report focused on improving internal controls and assigning accountability to agency heads. GAO went on to recommend passage of H.R. 1526, "The Federal Manager's Accountability Act of 1981," a bill similar to S.864. We endorse the objective of both of these bills-improving internal control systems to prevent fraud and waste in government programs.

S.864--The Financial Integrity Act

While we support the objective of S.864, we believe that objective can be achieved more effectively by administrative means. We are considering an OMB directive to the executive agencies on internal control systems. The internal control standards contained in the OMB Circular are completely consistent with the bill that you are considering. In fact we believe that the circular obviates the need for S. 864.

The proposed Circular, developed with the assistance of an interagency group which included representatives of the General Accounting Office, fleshes out the concepts of internal control described in S. 864, and provides procedural steps for assuring that effective internal control systems are established. The Circular will result in:

- OMB approved internal control directives issued by agency heads that are tailored to their particular programs and organizations.
- reports on the adequacy of the agency's systems of internal accounting and administrative control.
- evaluations of agency internal control systems and of compliance with them.
- clear assignment of internal control responsibilities to managers.
- consideration of internal control issues in performance appraisals of senior managers.

We believe that this Circular will more than satisfy the objectives of S. 864, eliminating the practical need for such legislation.

Priority Legislative Needs

Mr. Chairman, we feel that there are other proposals before this committee which serve the policy objectives of S. 864. To quote the bill-"all levels of management of the Federal agencies must involve themselves in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of Government funds."

The issue is where we should place our emphasis at this time to achieve the most substantial results. We are just now gaining momentum on some very important aspects of our campaign against fraud, waste, and mismanagement. These are areas where the President needs legislative assistance from the Congress. These are legislative issues that are before the Congress now.

These high priority legislative needs encompass debt collection, the extension of the statutory Inspector General program, and use of the single audit.

As you may know, Mr. Chairman, we have been working with Senators Percy and Sasser and other members of this Committee very closely on badly needed legislation to improve debt collection efforts in the Federal Government. After detailed negotiations at the most senior levels of the Administration, we completed action on a legislative proposal that Dave Stockman transmitted to the President of the Senate on May 15. That legislative proposal will substantially strengthen the ability of the Government to recover an enormous amount of overdue and uncollected debts owed the Government--more than $25 billion as of September 30, 1979.

This Committee is considering legislation to extend the provisions of the Inspector General Act of 1978 to the Departments of Defense, Justice, and the Treasury and to AID. The Administration supports legislatively mandated Inspectors General of the type envisioned in the Inspector General Act of 1978.

We agree on the objective. We need to provide statutory coverage for the four agencies that will recognize some unique characteristics of the missions of those agencies. We want to sit down with the Committee, together with our colleagues from the agencies, and work out specific coverage that will assure strong, effective Inspectors General in those agencies. This legislation is absolutely key to the overall success of the fraud and waste program. If our efforts are to pay off in the long-run, we owe it to the taxpayers to be very careful and very specific on the coverage, especially with respect to Defense and Justice.

Another high priority legislative need is in the single audit area. The Chairman's bill, S. 807, the Federal Assistance Improvement Act, is now being considered by this Committee. The support of the Congress for the use of single audits for each recipient of Federal assistance will eliminate the need for grant-by-grant audits. It will contribute immeasurably to improving the effectiveness of audits and the management of our grant programs.

Mr. Chairman, we urge that this Committee place its support behind the specific legislative proposals I have just outlined for you. I hope the Committee will agree that the priority belongs to those specific proposals at this point, in preference to the more general provisions of S. 864.

This concludes my statement, Mr. Chairman. I will try to respond to any questions the Committee may have.

INSPECTOR GENERAL HOTLINES
PUBLICITY

Department	Hotline #	Posters	Handouts	Memos/Letters	Newsletters	Other
Agriculture	800-424-9121	-	-	Memoranda to all employees March 1, 1979 September 7, 1979	USDA, February 28, 1979	-
AID			-NONE-			
Commerce	800-424-5197 202-724-3519	-	HOTLINE Business Cards June 20, 1980	-	-	Departmental Administrative Order 207-10 January 19, 1981
CSA	202-653-5430 800-424-3005	-	Brochure being developed	Mailgram sent to grantees and delegate agencies (Spanish - May 29, 1980) Plans for additional notices	-	Staff Notice to All Employees August 14, 1980
Defense	202-693-5080 800-424-9098	-	-	-	Installation newspapers Army Times; Navy Times; Air Force Times; bulletins	Stickers for phones
Education	202-755-2770 8-755-2770	-	Brochure on IG to all employees	Memorandum to all employees July 30, 1980	-	Notice on employee check-stubs

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INSPECTOR GENERAL HOTLINES
PUBLICITY

Department	Hotline #	Posters	Handouts	Memos/Letters	Newsletters	Other
Energy	202-245-4073	-	Fact sheet (1979 and 1980) given to employees contacted during an investigation	Memoranda to all employees March 30, 1979 March 19, 1980 December 3, 1980	Energy Insider, dated May 14, 1979	-
EPA	202-245-3090	-	Pamphlet to all employees	-	-	-
GSA	202-245-3090	Yes (all Federal buildings)	Business cards with all hotline numbers Brochure being developed	-	GSA IG Newsletter; and regional newsletters of GSA offices	Orientation programs; and, contacts with the press
HHS	202-472-4222 8-472-4222	-	-	Memoranda to all employees February 1, 1979 October 6, 1980	Personnel Perspective February 17, 1981	-
HUD	202-472-4200	Yes (2 - 15 per HUD office)	Insert cards attached to posters	Staff Bulletins January 29, 1979 March 11, 1980	Huddle, July 1980	OIG Manual Chapter to all OIG employees
Interior	202-343-2424	-	-	Letter to all employees	-	Management briefings; discussions with employees

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INSPECTOR GENERAL HOTLINES
PUBLICITY

Department	Hotline #	Posters	Handouts	Memos/Letters	Newsletters	Other
Justice	202-633-3365	-	-	Memoranda to heads of Justice Department components: distributed to employees	-	Listed in phone directories as Office of Professional Responsibility
Labor	800-424-5409 202-357-0227	-	Brochure to all employees	Memorandum to all employees July 24, 1979 March 27, 1980 (National Office Only)	-	Two press releases; also printed in phone directories
NASA	202-755-3402 800-424-9183	Yes	-	Notice to all employees March 31, 1980	-	Listed in phone directories; also, Management Inst
SBA	202-653-7557	-	-	-	Articles in SBA Insight	Listed in phone directories; also other press releases
State	202-632-3320	-	Notice to all employees	Airgram to all posts October 9, 1979 Cables to All Posts July 1, November 2, 1980 Feb 16, March 3, 1981	Newsletter Dec 1979	Orientation of new employees Briefings by audit teams
Transportation	800-424-9071 202-755-1855	-	Pamphlet on IG distributed to all employees	Memoranda to all employees April 7, 1979 December 20, 1979 June 10, 1980	-	-

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INSPECTOR GENERAL HOTLINES
PUBLICITY

Department	Hotline #	Posters	Handouts	Memos/Letters	Newsletters	Other
Treasury	202-566-6900	----------	NONE----------	----------	----------	----------
VA	202-389-5394 8-389-5394	-	-	Memorandum to all employees February 8, 1979	Vanguard, March 20, 1979 and July 2, 1980 Fraud Watch #3 1981	Speeches; meetings with employees; discussions with audit teams

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RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR ROTH

1. I understand that in your capacity as Chairman of the President's Council on Integrity and Efficiency, you establish the Council's Committee structure and agenda. What are your plans for the Council's committee structure and what is your planned agenda? What policies and standards have been developed thus far?

Answer: The Council has established the following five standing committees:

- Investigations - Law Enforcment--To develop and recommend policies and procedures for the Council to consider to improve investigation and law enforcement-related efforts of the I.G. program, including improved IG/FBI referral systems.
- Administrative Remedies and Incentives--To develop proposals for obtaining and using a full range of administrative remedies and penalties for instances of flagrant abuse and mismanagement and in cases of illegal activity where prosecution is declined, and to identify and suggest ways to recognize and reward positive performance.
- Legislation--To coordinate any comments submitted to the committee by the I.G., or others on proposed or existing legislation, and to present a common position of the I.G., when appropriate.
- Performance Evaluation--To devise and monitor analytical and statistical approaches to measuring the effectiveness of the I.G. program, including assessment of resource requirements, and consistency in semi-annual report definitions.
- Training--To be responsible for developing proposals and suggested courses of action, including implementation plans, to meet the Council's charge to ensure the establishment of a corps of well-trained and highly skilled auditors and investigators (e.g, course material development, recommendations about private sector training opportunities).

The Council's long-term agenda is now evolving. The Council is currently considering undertaking specific anti-fraud and waste projects in the following areas:

- Unliquidated obligations
- Controls over contract change orders
- Computer security reviews
- Excess cash on hand
- Federal employees receiving government assistance
- Development of standard governmentwide criteria for recipient eligibilty in Federal programs
- Government furnished material/Government furnished property
- Time and attendance records
- Imprest fund/Agent cashier accounts
- Banking procedures/loan guarantee programs
- Grant project management
- Payroll operations
- Duplicate benefits
- Standards of conduct
- Computer matching
- Federally funded construction projects
- ADP governmentwide systems
- SBA 8(a) program
- Space acquisition and utilization

The Council has not developed specific policies and standards, pending additional experience in some of the project areas we have selected.

2. How will the Council organize and develop its interagency audit and investigative program? Due to the fact that large numbers of fraud cases involve federal funds where state and local jurisdictions have primary jurisdiction, will it be possible to ensure coordinated relationships between federal, state and local government agencies?

Answer: As the proposed project list above indicates, the Council proposes to conduct interagency audit and investigative activities on a project team basis. The current plan is for each team to be composed of two or three Council members, involving the rest of the Council as appropriate. Staff assistance will be provided by the responsible Council members.

The Executive order creating the Council recognizes the need for coordination between Federal, State, and local agencies. The individual IGs handle this directly on a case-by-case basis. The Council will help by circulating information of common interest through OMB's intergovernmental relations network.

3. Once the Council has developed plans, standards, policies and programs for attacking fraud and waste, will these be implemented and enforced?

   Answer: Yes. Each Council member is directly responsible, to the extent of his or her authority to do so, for implementing Council plans, standards, policies, and programs.

4. I understand that GAO made many positive contributions to the interagency task force which developed the proposed circular we have discussed. Why isn't GAO playing a greater role in the President's Council?

   Answer: We work closely with GAO on many aspects of improving management and fighting fraud and waste, such as single audit approaches, internal controls, and hotlines. The Executive order creating the Council recognizes the value of this working relationship, noting that the Chairman may invite the Comptroller General to participate in Council meetings. In fact, GAO played a significant role in our June 1 - 3 Orientation Program for the Inspectors General-designate. While the President's Council is an Executive Branch entity, we intend to continue working closely with GAO.

5. What standard do you consider to be primary in fighting fraud in government programs-automated data processing, cash management and handling or procurement controls?

   Answer: It would be inappropriate to single out one of the three as having primacy over the others. Standards in each area are significant in fighting fraud in government programs. Depending on the specific agencies involved, and the specific programs within each agency, the significance of the standards would vary agency by agency and program by program. In general, however, they are all important and are receiving considerable attention from the individual IGs as well as from the Council. (See the project list provided under question 1.)

6. Two years ago GAO testified that the Department of Justice estimated there was between $2.5 and $25 billion of waste and fraud in government. Do you back up this estimate and could you pinpoint for the Committee OMB's breakdown of figures on waste and fraud?

   Answer: These figures were originally used by then Deputy Attorney General Benjamin Civiletti. He subsequently testified before a Congressional Committee that the numbers represented a projection based on a very limited sample, that he consequently had little confidence in it, and that there was really no way to substantiate a specific estimate of the amount of fraud and waste in government.

Estimates of specific amounts of fraud and waste can be misleading. Possible savings from anti-fraud and waste efforts cannot be proved in advance. Because of this, any projections are only goals of our fraud and waste program. Based on experience over the past two years, audit recoveries yield about $4 billion each year.

This estimate is based on Inspector General semi-annual reports for FY 1980 and reports by the Defense Contract Audit Agency (DCAA) for the same period. The $4 billion includes questioned costs, dollars saved, and recoveries primarily as a result of audit activities. The questioned costs are reported by the IGs as a result of their audits; resolution of those costs is in process at the time they are reported. These dollars are primarily in the areas of unsubstantiated or fraudulent claims by grantees, contractors, and recipients of Federal benefits. $2.9 billion of this total are savings resulting from DCAA work alone. DCAA performs almost all of the contract audit work for the Federal Government.

7. Will the President's Council intake further study into the Financial Integrity Act of 1981 or adopt administratively any of the bill's provisions?

Answer: The President's Council, as part of the Executive Branch, will be guided by the proposed OMB Circular on internal controls, which as we noted in the May 19, 1981 testimony fleshes out the concepts of internal control described in S.864, and provides procedural steps for assuring that effective internal control systems are established. In this report the President's Council will be following administratively the precepts that S.864 would legislate.

8. The Merit Systems Protection Board report found that federal employees, by their own report, have substantial knowledge of waste, fraud and abuse affecting government operations either by observation or direct evidence. What is your reaction to this and is the whistleblower issue of strong concern to the Council and to the Administration as a whole?

Answer: As our May 19, 1981 testimony noted, the findings of the MSPB study confirm much of what the Administration has been saying. The entire issue is of great concern both to the Council and to the Administration. As the President said on April 16:

> "The vital element in any program designed to fight fraud and waste is the willingness of employees to come forward when they see this sort of activity. They must be assured that when they "blow the whistle" they will be protected and their information properly investigated."
>
> "I want it made clear that today this Administration is providing that assurance to every potential whistleblower in the Federal Government."

9. The GAO report shows that those committing fraud are either not being prosecuted or being given liberal repayment terms that are often not even being collected. This shocking data shows an appalling lack of enforcement. What plans does the Administration have to remedy this?

Answer: We agree with the conclusions in the GAO Report which notes that administrative remedies must be available if the Justice Department declines to prosecute cases of fraud. In addition, we must beef up the Justice Department's efforts in combating fraud and abuse in the Federal Government. The cost to the taxpayer is too great for white-collar Federal crime to go on unprosecuted. We are also working to improve the percentage of cases prosecuted by the Department of Justice as an additional form of deterrent.

The President's Council will also be active in this area. As mentioned in our May 19 testimony, the Council, recognizing that prosecution of many cases through the judicial system may not be practical, has established a committee to address the possibilities and problems of administrative remedies. This committee will develop a proposal for using the full range of administrative remedies and penalties available against cases of flagrant abuse and mismanagement and in cases of illegal activity where prosecution has been declined.

10. The fact that the Merit Systems Protection Board reported that 45 percent of the federal employees surveyed claimed to have personally observed or obtained direct evidence of a wasteful or illegal activity within the past year is indeed troublesome. Do you intend to study the figures discussed here and make an all out effort to assist these employees in reporting fraud?

Answer: As stated in our May 19 testimony, the President's Council on Integrity and Efficiency is working with the MSPB to follow-up on the cases identified during the course of the study. MSPB is referring the cases to the appropriate Inspectors General. At their June 1 meeting, the Council members agreed to take the following additional steps:

1) provide the Council staff with summaries of the referrals and brief assessments of the significance of those referrals;

2) provide the Council staff with a description of their systems to handle allegations of fraud, waste or abuse; and

3) provide the staff with descriptions of actions they (the IGs) take to protect whistleblowers from reprisal).

This information will be used to determine further steps that the Council might consider.

11. The Merit Systems Protection Board report found that the major deterrent to employees willingness to report fraud and waste was not fear of reprisal but belief that nothing will be done. Over 53 percent of the people in the survey had that response. It seems to me this should be the first step in a Council agenda. What can be done administratively or legislatively to remedy this?

Answer: We agree that it is important to change this perception that "nothing will be done." The way to accomplish this is to demonstrate that follow-up will take place.

We will ensure that there is management responsibility for following-up on IG and GAO findings and recommendations. The President directed, when he created the Council on Integrity and Efficiency, each cabinet member and agency head to designate a single, top level individual who would be responsible for ensuring agency follow-up on these findings and recommendations. By closing the loop -- from allegations, thru findings and recommendations, to management action -- we should be able to reassure employees that something will be done.

In addition, OMB staff will ensure that there is follow-up on allegations which we receive directly. We are tracking these individual allegations to also help us identify governmentwide problems -- what we are calling cross-cutting issues -- which are surfacing through employee and citizen reports of fraud and waste as well as IG, GAO reports, and other sources.

Chairman Roth. At this time I would like to call Ruth Prokop, who is Chairwoman of the Merit Systems Protection Board.

TESTIMONY OF RUTH T. PROKOP, CHAIRWOMAN, MERIT SYSTEMS PROTECTION BOARD, ACCOMPANIED BY PATRICIA MATHIS, DIRECTOR, OFFICE OF MERIT SYSTEMS REVIEW AND STUDY

Chairman Roth. Ms. Prokop, welcome to the committee. Is that your pretty daughter accompanying you?

Ms. Prokop. Yes, it is. She is getting her civics lesson here today.

Chairman Roth. We are delighted to have her here.

Ms. Prokop. Thank you.

Chairman Roth. You may sunmarize your statement. Your full statement will be incorporated in the record.

Ms. Prokop. I will try to read key parts and skip as much as I can in order to conserve time for the committee.

I appreciate being invited to appear here today. It is indeed a pleasure to discuss with you the Board's preliminary findings on the question of reprisal against Federal employees for disclosure of fraud, waste, and mismanagement.

As you know, the Civil Service Reform Act of 1978 was, in part, a product of the belief that whistle blowers could play a legitimate and vital role in insuring the integrity and efficiency of the Government by reporting fraud, waste, and mismanagement. Moreover, it was the belief of this committee and the Congress that employees who exposed wrongdoing frequently encountered severe damage to their careers and substantial economic loss for their disclosures. Accordingly, Congress offered certain statutory protections to would-be whistle blowers by prohibiting such reprisal.

In order to determine whether these provisions were serving their intended purposes, last spring the U.S. Merit Systems Protection Board began to plan an evaluation of those whistle blower protections. A survey was constructed to learn from a random sample of Federal employees the answers to three basic questions:

How many employees had personally observed or obtained direct evidence of fraud, waste, or mismanagement in the previous year; how many such employees reported these activities; to what extent did these employees suffer reprisal for making such disclosures?

To answer these questions, we went to 13,000 Federal employees in 15 different agencies. Over 8,600 responses to that survey were received and analyzed.

The preliminary results of that survey were released just last month. Our findings proved to be most surprising and, we believe, cause for serious concern. Several observations can be made:

First, nearly half of those responding to the survey, or 45 percent, claim to have personally observed or obtained direct evidence of wasteful or illegal activities during the past year. Nearly 10 percent of all respondents claim to have observed Government-related waste in excess of $100,000. Extrapolated across the full population of agencies we surveyed, 45 percent of employees witnessing waste or fraud would represent some 340,000 witnesses to such activities in 1 year alone.

Second, of those employees who discovered waste and illegal activities, more than two-thirds, or 70 percent of them, failed to report the activity. Extrapolating this 70-percent figure across the agencies surveyed, that means that some 238,000 employees failed to report what they discovered.

Finally, of those who did report such activity and identified themselves, a significant proportion, neatly 20 percent, believed they had indeed been victims of reprisal due to their disclosures.

Perhaps even more unsettling than the apparently large number of employees who have encountered these improper activities are their reasons for not "blowing the whistle." One of the surprises of the survey was that the major deterrent to employees' willingness to report fraud and waste is not fear of reprisal but the belief that nothing will be done. Fifty-three percent of the employees who failed to report waste or illegal acts did so simply because they believed nothing would be done about it. Furthermore, 20 percent did not report such activities because they believed nothing could be done about it. These concerns are buttressed by our findings that 43 percent of those employees who actually came forward to report wrongdoing said that the reported abuses were not corrected.

This is not to say, however, that fear of reprisal is an insignificant factor in employees' failure to report fraud, waste, and mismanagement. In fact, an additional 19 percent of employees who failed to report illegal and wasteful activities feared that the risk of reporting was too great. Moreover, our findings indicated that a significant proportion—about one in five—of those who did report such activity believe that they have suffered reprisal in doing so. If one person in five made disclosures and as a result suffered some form of reprisal, the available statutory protections of the Reform Act may not be doing their job. Our survey indicates two possible answers for the high incidence of reprisal:

Reprisal most often takes forms which are not easily documented or appealable to an outside agency, such as poor performance appraisals, denials of promotion, and a general "watering down" of job responsibilities.

Also, there is a widespread lack of knowledge about the very existence of the channels established to receive whistle blower complaints. For example, our survey shows that large numbers of employees were unaware that remedies were potentially available to them through the Office of the Special Counsel: 71 percent were unaware; the Inspectors General: 43 percent of the respondents were unaware; or the General Accounting Office: 32 percent of the respondents were unaware.

Employee fear of reprisal may also reflect a considerable degree of skepticism among employees about the commitment of higher level managers to eliminate illegal or wasteful activities. Indeed, less than half, 45 percent, of employees responding to our survey expressed confidence that their supervisor would not take action against them if they reported such activities through official channels. Even more surprising, only about a quarter, or 24 percent of employees, expressed confidence that officials above their supervisor would refrain from reprisal under such circumstances.

While our conclusions regarding the breadth and depth of these problems are still preliminary, our concerns appear to be substantiated by a report recently released by the General Accounting Office, entitled "Fraud in Government Programs."

I know you will be hearing a witness who will discuss that report in depth. I will skip over that part only to commend that survey and to say, in general, that we believe that that and the Merit Systems Protection Board's survey went hand-in-hand toward giving some dimensions to the problem that we are facing.

I think it is beyond question that the public demands now, more than ever, that this destructive cycle be broken. There is reason to be encouraged that the Congress and the administration are taking steps to do so by increasing support for enforcement and by giving greater encouragement to Federal employees to come forward.

We were pleased by the administration's establishment of the much publicized whistleblower hotlines. We are very pleased with the establishment of the Council on Integrity and Efficiency to focus support on the war on waste and fraud.

This committee has introduced, as you discussed with Mr. Harper, the Financial Integrity Act, which is intended to monitor and strengthen agency accounting internal procedures. You have also convened these hearings, which, I think, will send a strong message that the area of fraud and waste is a serious business for this Congress.

Ultimately, all of our success rests on what Senator Cohen so well outlined before, and that is, that the failure of enforcement appears to deter reporting while, in turn, the reluctance to report tends to lessen enforcement activities. I want to underscore that we believe our survey points very much to that kind of cycle which we really must break.

There was one encouraging point in our survey which I would like to mention; that is, that the overwhelming majority of respondents, 81 percent, indicated that they would be more likely to come forward and report illegal or wasteful activities if they believed something would be done about it. Our findings indicate that Federal employees are willing, even eager, to report such activities. For example, 94 percent of the respondents believe it is in the best interests of the agency when an employee reports illegal or wasteful activities.

Second, a substantial majority of employees, 60 percent, wished to have further information about where to report such activity.

A successful campaign against wasteful and illegal activity in Government can and must draw upon this residual strength and integrity. To do so, officials at the highest levels of Government must demonstrate with conviction both their receptivity to those who wish to blow the whistle and their firm intention to prosecute those who break the law.

This concludes my statement, Mr. Chairman, and I would like to introduce, to my left, Ms. Patricia Mathis, who is the Director of our Office of Merit Systems Review and Study, who conducted this survey. We would both be glad to respond to any questions that the committee might have.

Chairman Roth. Thank you very much for your illuminating statement. One of the things that concerns me the most is that it would appear from your study that supervisors do not place a very high priority on determining where there is fraud and abuse and taking steps to correct it. Do you have any suggestion or ideas how we can make management in the executive branch conscious or recognize that this should be a top priority?

Ms. **Prokop**. I went over and spoke to the Integrity Council which is in place to start the process. I think we have a responsibility to bring the problem to the attention of top management all across the Government. I think this report indicates that until you have that kind of support from the highest managerial levels that sift down into the department, you are not going to be able to correct these attitudinal problems, which seems to be the basis of the problem, and thereby show employees that something will be done.

I know you have spoken today about devising ways to control the internal systems and the reporting systems. That is one methodology. I think that prosecution is another way to combat this and to set examples.

Also, the bill that has been introduced, or is being introduced, on civil penalties, is a third answer. I think you must look at the problem as a very broad one but right at the core of it is the attitude of managers and whether they can get the kind of confidence down to the ranks that will make people come forward.

Chairman **Roth**. Is there any reason for any level of management to feel that their performance rating depends, in part, upon being aggressive in this area?

Have you discovered by general practice of being critical or giving negative ratings to supervisors who failed to take action in this area, or is this something that just is not reviewed?

Ms. **Prokop**. To my knowledge, I do not want to profess myself as the authority in this area, but to my knowledge, that is not an idea that has gotten into the performance rating appraisal system. I think it would be a very good one to consider because it is an important factor in how well you are doing your job, if we have this widespread a problem, and every report that we are doing indicates that the problem is extraordinarily widespread.

I think it is a very good idea. I do not think it is being done right now, at least to the best of my knowledge.

Chairman **Roth**. It seems to me that if you don't do it, it is going to continue along the lines we are now following.

Of course, enforcement is important. I think it is much more important to prevent these things from happening.

I notice that in your testimony you said 10 percent of those interviewed had witnessed waste or abuse in excess of $100,000?

Ms. **Prokop**. That is correct.

Chairman **Roth**. That is a very significant figure.

Do you have any information as to what kind of dollar amount we are talking about as a result of this failure to disclose?

Ms. **Prokop**. No, we do not. The reason is that we went into this study to take a look at reprisal rates, as I stated. We did not go in attempting to place a dollar figure on the amount of fraud, waste, and mismanagement. We were as surprised by some of the things that came out of this study as, perhaps, you were. We did not look at a dollar figure. We cannot determine that from the survey. It would be irresponsible if we did. But I know that I used your figure when I appeared on "Good Morning America" recently.

And while we cannot substantiate that, I think there is a very rational explanation of how that figure was arrived at. I think it is a fair estimate of the type and degree of fraudulent and wasteful activity we are talking about here.

Chairman ROTH. I notice that there seems to be a very small percentage of employees utilizing the GAO hotline. I think it was 1 percent?

Ms. PROKOP. Yes.

Chairman ROTH. Would it help to have some kind of a hotline to this committee?

Ms. PROKOP. I think it would be very good to have a hotline to this committee and to as many places as we can get hotlines. I would not want to mislead you, on the other hand, and say that I think hotlines are the full answer. I think that we have to, again, go out and let it be known that these places receive complaints on wasteful and fraudulent conduct, and they will do something about it. You have an educational effort across the Government, and then you have a performance level to play back to employees.

I think this kind of communication is one of the most important aspects of this entire effort.

Chairman ROTH. So you think the key factor would be education of employees and a program to make it clear to supervisors that their evaluation is partly based on their performance in this area?

Ms. PROKOP. That is right. If I might add to that, when I spoke with the Integrity Council the other day, I stressed again and again that Federal employees understand, perhaps better than we have given them credit for, whether blowing a whistle is an effective method of doing business, so to speak. So if you can show them that if complaints are legitimate and something will be done about it, they will be much more likely to come forward.

I really stress the performance level to show back and to play back to the Federal employees. That is very important.

Chairman ROTH. I would just like to underscore that GAO study found less than one-half of 1 percent involved in fraudulent activity. We all agree that the study shows only the tip of the iceberg, so the percentage is undoubtedly larger than that.

At the same time, I think it is very important to understand if these surveys are correct, that by far and away, the large majority of Federal employees are honest and are not involved in fraudulent activity.

That is important and we should make sure that this is understood.

Ms. PROKOP. Yes. Thank you.

Chairman ROTH. Senator Cohen?

Senator COHEN. Just a couple of observations, Ms. Prokop. One of the troubling aspects of this is that on the one hand we seem to find widespread fraud and abuse. We have seen evidence that 70 percent, or 238,000 employees, of those employees surveyed who had discovered instances of fraud and waste did not report them.

But on the other hand, there is the danger that we might go to the other end of the pendulum, in my judgment, so that in our effort to rout out fraud and abuse, we create a system that borders on that of big-brotherism. In other words people will be so concerned about spying upon their fellow workers, about reporting cases of ambiguous merit, let's say, in terms of whether it is fraud and abuse, that everybody is telling on everybody else.

We have got a hotline to the Governmental Affairs Committee. We have got one to GAO and to the various departments.

The answer is that we have to create a spirit of austerity within this massive bureaucracy and Government of ours, without creating a spirit of big-brotherism. For example, I am told by someone that the executive branch is now considering the monitoring of phone calls to make sure that Federal business is, in fact, being conducted; it is not simply being abused for personal use.

That may be well and good but it is just one step to monitoring all phone calls to make sure that it is purely Federal business.

Then you create an atmosphere as reflected in a successful book, Gorky Park, that you create a whole atmosphere of people spying on each other and distrusting each other. Suddenly, the function of Government is rather negative. You have a host of malcontents out there working in our bureaucracy; people who are not particularly contented with their jobs and see something wrong at every level of management.

That element is there, as well. That particular person might disagree with his or her superior, report an example of fraud and abuse, and then find out there was no merit to it. The boss suddenly gets rather skeptical about that person having a negative attitude. He or she then claims reprisal. My fear is we are going to go all the way over from one end of the pendulum to the other in trying to rout out this fraud and abuse. We will become so repressive that we will create an atmosphere contrary to what the Government is about.

I think Justice Learned Hand said, "Liberty lies in men's and women's hearts and when it dies there, there is no constitution that can save it."

I hesitate to raise this issue, because I don't want to hinder in any way the movement toward instilling a sense of greater responsibility.

On the other hand, I think we ought to raise some voices of concern that we not become so repressive that we foster the wrong kind of attitude and research within our bureaucracy.

Ms. **Prokop**. I commend you for raising it. I think it is an important concern that will guide us in this area and that is a question of moderation in this entire effort. It is a difficult one. Moderation is always difficult. It has very few supporters in any agency.

Senator **Cohen**. I find that true in politics, as well. [Laughter.]

Ms. **Prokop**. So do I. We have stressed, during my tenure at the Board in this entire area; that you simply cannot just accuse someone. That is not our system of government. At the same time, there are the arguments of people being unwilling to come forward and expose themselves to be accused in the words of the infamous rape victims and things of past years.

So we have really got to take all of this in some type of moderation. I completely concur with you. That has, at least, marked my own personal views, and I believe the views of the other two Board members during our tenure.

There are areas of abuse in saying, "Nothing is going to be done, and I am not going to come forward." We know we have to get people to come forward. How do we do that within a moderated approach to this? I commend you for raising this point. I think it is a very important point. I personally think perhaps we have leaned over and not have gone strongly enough after some of the problems we are seeing, but we must keep the moderation in mind. It is a very good point.

Senator COHEN. Thank you, very much, Mr. Chairman.

Chairman ROTH. Thank you, Ms. Prokop.

Ms. PROKOP. Thank you very much.

[The prepared statement of Ms. Prokop follows:]

MERIT SYSTEMS PROTECTION BOARD
Washington, D.C. 20419

Statement by Ruth T. Prokop
Chairwoman
Merit Systems Protection Board
before the
Committee on Governmental Affairs
United States Senate
May 19, 1981

Dear Mr. Chairman and Members of the Committee:

It is indeed a pleasure to appear before the Committee and discuss the Board's preliminary findings on the question of reprisal against Federal employees for disclosure of fraud, waste and mismanagement.

As you know, the Civil Service Reform Act of 1978 was, in part, a product of the belief that whistleblowers could play a legitimate and vital role in ensuring the integrity and efficiency of the Government by reporting fraud, waste, and mismanagement. Moreover, it was the belief of this Committee and the Congress that employees who exposed wrongdoing frequently encountered severe damage to their careers and substantial economic loss for their disclosures. Accordingly, Congress offered certain statutory protections to would-be whistleblowers by prohibiting such reprisal.

In order to determine whether these provisions were serving their intended purposes, last spring the U. S. Merit Systems Protection Board began to plan an evaluation of the whistleblower protections. A survey was constructed to learn from a random sample of Federal employees the answers to three basic questions:

-- How many employees had personally observed or obtained direct evidence of fraud, waste or mismanagement in the previous year?

-- How many such employees reported these activities?

-- To what extent did these employees suffer reprisal for making such disclosures?

To answer these questions, the Board's Office of Merit Systems Review and Studies, in cooperation with the Offices of Inspectors General, distributed a survey questionaire last November to 13,000 Federal employees in 15 different agencies. Over 8600 responses to that survey were received and analyzed.

The preliminary results of that survey were released just last month. Our findings proved to be most surprising and, we believe, cause for serious concern. Based on the responses received, we can make several observations:

o First, nearly half of those responding to the survey, or 45%, claim to have personally observed or obtained direct evidence of wasteful or illegal activities during the past year. Nearly 10% of all respondents claim to have observed Government-related waste in excess of $100,000. Extrapolated across the full population of agencies we surveyed, 45% of employees witnessing waste or fraud would represent some 340,000 witnesses to such activities.

- Second, of those employees who discovered waste and illegal activities, more than two-thirds, or 70% of them, failed to report the activity. Extrapolating this 70% figure across the agencies surveyed, some 238,000 employees failed to report what they discovered.
- Finally, of those who did report such activity and identified themselves, a significant proportion (20%) believed they had indeed been victims of reprisal due to their disclosures.

What emerges, then, is a disturbing picture of the widespread and complex nature of the problems we are addressing.

Perhaps even more unsettling than the apparently large number of employees who have encountered these improper activities are their reasons for not "blowing the whistle." One of the surprises of the survey was that the major deterrent to employees' willingness to report fraud and waste is not fear of reprisal but the belief that "nothing will be done." Fifty-three percent of the employees who failed to report waste or illegal acts did so simply because they believed nothing would be done about it. Furthermore, 20% did not report such activities because they believed nothing could be done about it. These concerns are buttressed by our finding that 43% of those employees who actually came forward to report wrongdoing said that the reported abuses were not corrected.

This is not to say, however, that fear of reprisal is an insignificant factor in employees' failure to report fraud, waste and mismanagement. In fact, an additional 19% of employees who failed to report illegal and wasteful activities feared that the risk of reporting was too great. Moreover, our findings indicated that a significant proportion--about one in five--of those who did report such activity believe that they have suffered reprisal for doing so. If one person in five made disclosures and as a result suffered reprisal, the available statutory protections of the Reform Act may not be doing their job. Our survey indicates two possible answers for the high incidence of reprisal:

-- Reprisal most often takes forms which are not easily documented or appealable to an outside agency, such as poor performance appraisals, denial of a promotion, and a general "watering down" of job responsibilities.

-- Also, there is a widespread lack of knowledge about the very existence of various channels established to receive whistleblower complaints. Our survey shows that large numbers of employees were unaware that remedies were potentially available to

> them through the Office of Special Counsel (71%), the Inspectors General (43%), or the General Accounting Office (32%).

Employee fear of reprisal may also reflect a considerable degree of skepticism among employees about the commitment of higher level managers to eliminate illegal or wasteful activities. Indeed, less than half (45%) of employees responding to our survey expressed confidence that their supervisor would not take action against them if they reported such activities through official channels. Even more surprisingly, only about a quarter (24%) of employees expressed confidence that officials above their supervisor would refrain from reprisal under such circumstances.

While our conclusions regarding the breadth and depth of these problems are still preliminary, our concerns appear to be substantiated by a report recently released by the General Accounting Office, entitled "Fraud in Government Programs." That report considered only cases of fraud, which it defines as ". . . any willful or conscious wrongdoing that adversely affects the Government's interests." In our survey, however, we found that badly managed programs and the buying of unnecessary or deficient goods or services were the most widely observed forms of waste. Most of this type of waste is not fraud in the sense of being willful, yet the cost to the Government resulting from such activities is tremendous. We should bear in mind, therefore, that fraud is only part of the problem.

Nevertheless, the GAO report confirms, at least as to fraud, one of the principal perceptions of the employees responding to the MSPB survey--that very little wasteful or illegal activity is reported bcause very little of it is rectified or prosecuted.

In light of our findings and their support in the GAO report, one conclusion is obvious: the Federal Government is caught in a vicious cycle. Failure of enforcement appears to deter reportage, while, in turn, reluctance to report such activities lessens the likelihood of enforcement. This cycle is deepened by a significant level of reprisal taken against those Federal employees who do report illegal or wasteful activity.

Mr. Chairman, it is beyond question that the public demands now, more than ever, that this destructive cycle be broken. There is reason to be encouraged, we believe, that the Congress and the Administration are taking steps to do so by increasing support for enforcement and by giving greater encouragement to Federal employees to come forward and expose wasteful and illegal activities. For example:

-- Since release of our preliminary findings, the Administration has established and publicized "whistleblower hotlines" for Federal employees

-- The President has established a Council on Integrity and Efficiency to focus support for the war on waste and fraud; I have already presented our findings to that group and am am encouraged by its concern

- This Committee has introduced the Financial Integrity Act of 1981, which is intended to monitor and strengthen agency internal accounting procedures, and encourage the investigation and prosecution of irregularities in them
- This Committee has convened these very hearings, sending a strong message that the elimination of fraud and waste is a serious business for this Congress

Ultimately, of course, the success of all of our efforts to end the destructive cycle of unchecked waste and illegal activity must depend upon the strength and integrity of the Federal work force. I would like, in conclusion, to return for a moment to our survey data, where some hopeful signs can be found.

First, the overwhelming majority of respondents to our survey (81%) indicate that they would be more likely to come forward and report illegal or wasteful activity if they believed something would be done about it. Our findings indicate that Federal employees are willing--even eager--to report such activities. For example, 94% of the respondents believe it is in the best interests of the agency when an employee reports illegal or wasteful activities. Second, a substantial majority of employees, or 60%, wished to have further information about where to report such activity.

A successful campaign against wasteful and illegal activity in government can and must draw upon this residual strength and integrity. To do so, officials at the highest levels of government must demonstrate with conviction both their receptivity to those who wish to "blow the whistle," and their firm intention to prosecute those who break the law.

This concludes my statement, Mr. Chairman, and I will be pleased to respond to any questions which the Committee may have.

Chairman Roth. Our final witness today is Mr. Scantlebury, who is the Director of the the Accounting and Financial Management Division of GAO. Mr. Scantlebury, it is nice to welcome you here. Again, we congratulate you for the work you have done in preparing the study that has formed a principal basis of these hearings.

I would ask, if it is practical, that you summarize your statement. Your full statement will be included as if read.

TESTIMONY OF DONALD L. SCANTLEBURY, DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY GEORGE L. EGAN, ASSOCIATE DIRECTOR, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION, AND RALPH G. RUNNING, PROJECT MANAGER, ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION

Mr. Scantlebury. Thank you, Mr. Chairman. We are very pleased to be here today. I am accompanied by Mr. George Egan, the Associate Director of our Division, who directed this work, and Mr. Ralph Running, who is the project manager team leader who performed the review.

We have launched a three-pronged effort to combat fraud and abuse. The first is the operation of a nationwide tollfree hotline which can be used by citizens anywhere in the United States to report to the General Accounting Office instances of fraud in Federal programs.

So far we have referred about 6,000 allegations that came over that hotline to the inspectors general in the various agencies. We also have made a number of what we call vulnerability assessments which are basically reviews of agencies internal controls to see whether they are vulnerable to fraud and abuse. We have done such reviews in the Department of Labor, the Community Services Administration, and the Naval Materiel Command. In addition we have done a major study, which has been referred to several times already, of 77,000 fraud cases over a 2½-year period.

I think since the study has been discussed to the extent that it has, I will skip over the part of my testinony that discusses it.

I would like to talk a little bit about internal controls.

The Accounting and Auditing Act of 1950 specifically requires the heads of executive agencies to establish and maintain effective internal administrative and accounting control systems. That same act requires us to approve the agencies' accounting systems and we have regularly advised agencies that their systems will not be approved unless they have effective internal control systems. Despite the fact that the existing law requires Federal agencies to maintain such systems, I believe that most Federal agencies are operating accounting systems that are vulnerable to physical losses and waste of Federal money, as well as fraudulent or other improper use.

Our efforts to improve Federal agencies' accounting systems provide an insight into the extent of inadequate systems now existing.

As you mentioned earlier, at the present time, we have approved about two-thirds of the Government's accounting systems, but about a third of the systems, which control about 50 percent of the Federal budget, remain unapproved. I would like to just correct one thing while I am on this point. Mr. Harper indicated that he thought we had about 500 man-years of effort at the General Accounting Office going into approving accounting systems. I wish the agencies were keeping us that busy. Actually, we have something like 40 staff years going into that effort.

Even when we have approved accounting systems, widespread weaknesses often exist because, although we usually get them approved with effective internal control systems in the basic design, these control systems often gradually deteriorate during the implementation process and during subsequent years of operation. In many cases, the controls are very, very weak after several years.

So we also have to go in and make reviews of those systems, which we call reviews of systems in operation, to see whether they still have effective controls operating.

Unfortunately, we find over and over again that they don't.

We believe that the internal controls can be made more effective by strengthening existing law. The two pieces of legislation that are now being considered are the Financial Integrity Act of 1981, S. 864, and the Federal Managers' Accountability Act of 1981, H.R. 1526, both of which would require agency heads to undertake annual evaluations of their organizations' internal control systems and report the results of these evaluations to the Congress and to the President. We would participate in this process by providing guidance for conducting examinations and by reviewing the results.

We strongly support such legislation and believe it would contribute a great deal to promoting the development of adequate control systems in the Federal Government.

Mr. Chairman, that covers the main points I wanted to make. We would be pleased to respond to any questions.

Chairman ROTH. I gather from what you say, then, that you don't feel that this legislation would create a situation where there would be a lack of flexibility from the executive standpoint?

As I understand, the objection interposed by the administration, which is fairly typical of every administration, is it unnecessarily circumscribes the freedom of action.

Mr. SCANTLEBURY. I don't see where it does. The law already requires them to maintain effective internal control systems, but they haven't been doing it. The Financial Integrity Act would require annual reporting on the status of their internal control systems which basically would require the agencies to check to see that these systems are functioning effectively. I think that would be a very effective tool for finding out what is going on with the agencies' accounting systems, and it doesn't seem to me that it would restrict their freedom to make adjustments to those systems in any way.

Chairman ROTH. I would have to say on a basis of the record, it doesn't seem that the Accounting and Auditing Act of 1950 build in too much inflexibility with respect to those who haven't even adhered to the requirements.

Mr. SCANTLEBURY. It doesn't really have any punishments for not complying. That is one of the problems.

Chairman ROTH. This is a question I wanted to raise with you. What needs to be done?

As I understand your testimony, you feel that the lack of approval of these systems, has allowed bad practices to subsequently develop.

What steps need to be taken to insure progress in this area as required by the law?

Mr. SCANTLEBURY. We have given a great deal of thought to that over the years. One of the things we have recommended is that this issue be raised in appropriation hearings each year, because, in many of these cases, the numbers that are presented in the budget have as their basic source the accounting systems that are not approved.

Chairman ROTH. Has that been raised with the Appropriations Committees?

Mr. SCANTLEBURY. Yes, it has. We have made that recommendation. We are repeating it, again, in a report which we will be issuing covering our activities during the past year in approving the accounting systems.

Chairman ROTH. I would be happy to send a letter as chairman of this committee to the chairman of that committee if you thought that would be helpful.

Mr. SCANTLEBURY. I certainly think it would, yes.

Chairman ROTH. I would ask some of your staff people to work with mine.

Mr. SCANTLEBURY. We will be pleased to do that.

[The letter referred to and response from Senator Hatfield follow:]

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

Hon. MARK O. HATFIELD,
Chairman, Appropriations Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: During recent hearings on fraud and waste in government programs in the Committee on Governmental Affairs, it came to the attention of the Committee that there is a problem in the accounting and auditing procedures used by the agencies.

The General Accounting Office testified that the Accounting and Auditing Act of 1950 specifically requires the heads of the executive agencies to establish and maintain effective systems and requires the GAO to approve these systems. Although the General Accounting Office has regularly advised the agencies that their systems will not be approved unless effective internal controls are in place, the agencies have done nothing to comply with the law.

It was shocking to the Committee that the requirements for federal agencies to maintain such internal control systems have been mandated for over 30 years, and that at the present time, the GAO has not been able to approve 36 percent of the federal accounting systems. These 36 percent control over 50 percent of the federal budget. According to the GAO, the unapproved accounting systems have no internal controls at all, or the internal control systems contain weaknesses of such magnitude that prevents their approval. The General Accounting Office also found widespread control weaknesses in approved systems based on the agencies' willful failure to maintain the system.

As Chairman of the Governmental Affairs Committee, I strongly urge that the Appropriations Committee, during its annual oversight of each agency, determine if that agency has an approved accounting system and if not, why not. My Committee will be reviewing the need for further study and legislation in this area and will welcome any comments or suggestions you may have.

Sincerely,

WILLIAM V. ROTH, Jr.,
Chairman.

THOMAS F. EAGLETON,
Ranking member.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C., June 25, 1981.

HON. WILLIAM V. ROTH, Jr.,
3215 Dirksen Senate Office Building,
Washington, D.C.

DEAR BILL: Thank you for your letter regarding the GAO testimony before the Committee on Governmental Affairs that many of the accounting and auditing systems of federal agencies do not meet GAO standards. I have brought this point to the attention of all Appropriations Subcommittee Chairmen, and asked that it be considered in connection with fiscal year 1982 general appropriations bills.

Warm regards.

Sincerely,

MARK O. HATFIELD, *Chairman.*

Chairman ROTH. Generally speaking, I think that pretty much completes the questions I have today.

There is one question I wanted to ask you in connection with the hotline and the fact that only a minimal number of employees utilize it. Do you think this is a worthwhile approach, or do you think that it is of limited value?

Mr. SCANTLEBURY. As far as our hotline is concerned, we have been targeting it more toward people outside the Government, because each of the Inspectors General have had a hotline for their own agency. So we didn't expect that most of the people responding to our hotline would be Government employees. We thought we would get more people from outside the Government, which has been the case.

So far our hotline has produced a number of cases that we don't believe we would have found out about in any other way. We have saved $10 million that we know of, and probably lots more that we don't know of, as a result of the effort. The returns have far exceeded the cost of operating the hotline. We think it is a pretty effective tool.

Chairman ROTH. Might it not be advisable to make it more available to Federal employees in light of the fact that there is at least some concern—it is not the greatest concern—but some concern about the risk of retribution if they do divulge fraud, waste, or abuse within their agency?

Mr. SCANTLEBURY. After listening to the preceding testimony, I came to the same conclusion. It seems like we should do a better job publicizing it to Federal employees.

Chairman ROTH. I would urge that you try to make that better known to the Federal employees.

Finally, it does seem to me that a large part of the problem is the lack of importance attached to it by the supervisors. Do you have any suggestion of what might be done to make this a matter of greater priority to supervisory personnel at all levels?

Mr. SCANTLEBURY. One of the things that we thought might help a lot would be to get some things into the Senior Executive Service contracts saying that part of their job was to root out fraud, abuse, and waste in their areas of responsibility. I think that managers would welcome more help along that line. It might even encourage many people to bring some of these things to their own management's attention, if they thought that management would really do something about it and had a real concern. I think SES contracts would offer a good opportunity for bringing that home and enforcing some action in that area.

Chairman ROTH. I would like to ask the Governmental Affairs staff to meet with some of your people. I think this is a critical aspect of the problem. You are never really going to make major improvements, in my judgment, until you do create an atmosphere where the supervision from the top to the lower levels feel very strongly that this is not only part of their responsibility, but a factor in their own performance.

Mr. SCANTLEBURY. I certainly agree.

[Mr. Scantlebury's prepared statement and responses to written questions from Senator Roth and Senator Cohen follow:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
TUESDAY, MAY 19, 1931

STATEMENT OF
DONALD L. SCANTLEBURY, DIRECTOR
ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION
AND CHIEF ACCOUNTANT OF THE UNITED STATES
GENERAL ACCOUNTING OFFICE
BEFORE
THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
ON THE NEED TO PREVENT FRAUD AGAINST
THE FEDERAL GOVERNMENT

I am pleased to be with you today to discuss the serious problem of fraud against the Government and how it can be prevented. Since the beginning of calendar year 1979 we have had a 3-pronged effort underway to help prevent fraud against the Government.

The first of these efforts, and probably the most well known, is our operation of a nation-wide, toll-free hotline which can be used by citizens anywhere in the country to report instances of fraud in Federal programs. So far, we have referred almost 6,000 allegations for agency follow up.

Our second effort, vulnerability assessments, is an evaluation of the susceptibility of agencies and their programs to fraud and abuse. In doing our vulnerability assessments, we test the adequacy of internal controls over major administrative and program-related tasks to determine whether someone could, or has, abused Federal assets. To date, we have completed vulnerability assessments at the Department of Labor, Community Services Administration, and Naval Material Command. At all three of these agencies we found problems which make them vulnerable to fraud.

In our third major effort, we have been evaluating a statistical sample of identified fraud cases at 21 Federal agencies to determine the extent and characteristics of identified fraud in Federal programs. As part of our work, we also evaluated selected cases to see if internal control failures had allowed fraud to occur.

At a recent press conference you announced the release of the first of a 3-volume report we were issuing on the results of our evaluation of a statistical sample of more than 77,000 fraud cases identified bv Federal agencies over the 2-1/2 year period from October 1, 1976 to March 31, 1979. Our review showed that the losses in the 77,000 cases totaled between $150 and $220 million. This is probably just the tip of the iceberg, since these losses are attributable only to known fraud and other illegal activities investigated by the 21 agencies reviewed. It does not include the cost of undetected fraud which is probably much higher given the poor state of controls over how Federal money is spent. In this regard, a recent study by the Merit Systems Protection Board showed that Federal employees who observed fraud in their agencies frequently did not report it, primarily because they believed nothing would be done about it.

The estimated losses also do not include cases involving Federal funds where State and local jurisdictions had primary investigatory responsibility. These would include most Medicaid, Aid to Families with Dependent Children, and many Food Stamp cases. Losses in these types of cases are probably high. For example, a few years ago we estimated that the Federal government may be losing as much as $300 million a year to people cheating on food stamps.

Although the Federal agencies involved planned to recover between 20 and 29 percent of their losses through court-ordered restitutions or administrative actions, we believe that actual recoveries are much lower. For example, in one case we looked at an embezzler was allowed to repay $16,000 in stolen funds over a 65-year period.

We believe that dollar losses due to fraud may, in some respects, be less serious than the intangible costs. Fraud undermines the integrity of Federal programs and makes people lose confidence in public institutions. This occurs when members of the public believe that individuals can commit illegal acts without fear of prompt, or possibly any, Federal action. Such perceptions, whether valid or not, can result in the view that such activities are the norm.

Our study showed that close to 30 percent of the fraud cases identified involved Federal employees. I would like to add that these Federal employees represented only four-tenths of one percent of the total Federal workforce in the 21 Federal agencies we reviewed. Thus, the vast majority of Federal workers, well over 99 percent, were not involved. Other individuals and organizations committed about 40 percent of the frauds. In the rest of the cases, agencies were unable to identify suspects.

Thefts accounted for almost half the fraud cases and false statements about a quarter. The rest of the cases covered a wide variety of fraudulent activities including extortion, forgery, kickbacks or bribes, and non-performance of contract terms.

Federal agencies referred close to 13,000 fraud cases to the Department of Justice for prosecution. However, only about 40 percent of these were actually prosecuted. Thus, less than 10 percent of the over 77,000 cases identified by agencies were actually prosecuted.

Agencies may take certain administrative actions against individuals and organizations involved in fraud. For example, agencies can fire, suspend, or transfer Federal employees, and can suspend or debar contractors from doing business with the Federal government. However, we found that agencies did not always take available administrative actions against those commiting fraud. In fact, in 22 percent of the cases, no administrative or legal action of any kind was taken. When agencies did act it was often to remedy a specific situation, not to deter others from doing the same thing. For example, agencies quit doing business with contractors or grantees in only 13 percent of the cases involving these types of organizations. In 22 percent of the cases involving contractors or grantees the administrative action was sending them a warning letter.

We recognize that the Department of Justice cannot prosecute every case referred. This makes it even more important that Federal agencies take effective administrative actions when warranted. Along these lines, we believe that civil fine authority could be a useful enforcement tool for agencies in those cases where Justice does not take some type of legal action. The Department of Justice is currently drafting legislation that would give Federal agencies such authority. We have not had an opportunity to review and comment on the legislative proposal being drafted by Justice. However, we endorse the concept of giving agencies the authority to levy civil monetary penalties.

Detecting fraud and punishing the culprits is obviously important. Even so, we believe the key to combating fraud is preventing it from happening in the first place. During our review of fraud in Federal agencies we found many instances where the controls needed to prevent fraud were either inadequate, not followed, or nonexistent. While internal controls cannot prevent all fraud, we believe many frauds might have been prevented if good control systems had been in place. For example,

--A DOD employee allegedly embezzled almost $2 million in CHAMPUS program funds over a 3-year period. This act was possible because internal controls were inadequate, allowing one individual to control all aspects of claim adjustments as well as function as the officer certifying and approving the claim payments.

--A General Services Administration employee established a fictituous company to which he paid over $300,000 for services never performed. This act was made possible by a multitude of internal control problems.

--A Social Security Administration employee collected over $3,200 in fraudulent overtime payments by adding overtime hours to documents used for pay purposes. This scheme, again, was successful because the individual had complete control over such documents and distributed the related paychecks.

--An Assistant Manager at a GSA self-service store allegedly stole $168,000 in merchandise. He was able to do this because of a lack of separation of duties, inadequate supervision over his activities, and poor internal review.

Once fraud is allowed to occur, the Government fights a losing battle because losses are seldom recovered and the perpetrators are seldom effectively punished. When it comes to fraud, the old axiom "an ounce of prevention is worth a pound of cure" is most appropriate. Therefore, it is important that Federal managers put sufficient emphasis on building systems of internal control that will prevent fraud.

Internal controls are checks and balances over all fiscal and managerial activities of an organization. Examples, of internal controls are separation of duties so that one individual does not completely control a financial transaction; physical security measures that protect Government property, funds and records; and verification and reconciliation procedures built into an activity to assure that transactions are handled properly. I would like to make it clear at this point that the same controls needed to prevent fraud also will prevent waste and error which are probably much more serious problems.

The Accounting and Auditing Act of 1950 specifically requires the heads of executive agencies to establish and maintain effective internal administrative and accounting control systems. The same act requires us to approve the agencies' accounting systems and we have regularly advised agencies that their systems will not be approved unless they have effective internal controls.

Despite the fact that existing law requires Federal agencies to maintain effective internal controls, I believe that most Federal agencies are operating systems that are vulnerable to physical losses and waste of Federal money as well as fraudulent or otherwise improper use. Our efforts to approve Federal agencies' accounting systems provide an insight into the extent of inadequate systems now existing. At the present time, we have approved about two-thirds of the Governments 300 plus accounting systems but a third of the Federal agency accounting systems which control over 50 percent of the Federal budget remain unapproved.

Even when we have approved accounting systems, widespread weaknesses often exist. This is because some agencies never implement the system we approve, while others allow the controls within their approved systems to deteriorate over time. Deterioration of controls is frequently the result of management's failure to properly monitor their systems though such activities as approval of procedural changes and supervision of employees performing specific control functions.

As a result, even though the law requiring agency heads to establish and maintain effective control systems has been on the books for three decades, we have today's situation in which the Government's financial operations are generally held in low public esteem.

We believe that internal controls can be made more effective by strengthening existing law. The Congress is considering two pieces of legislation that would require greater accountability by heads of Federal agencies for the effectiveness of their organization's systems of internal financial control. The Financial Integrity Act of 1981 (S. 864) and the Federal Managers' Accountability Act of 1981 (H.R. 1526) would require agency heads to undertake annual evaluations of their organizations' internal control systems and report the results of such evaluations to the Congress and the President. We would participate in this process by providing guidance for conducting the examinations and by reviewing the results. We strongly support such legislation and belive it would contribute a great deal to promoting the development of adequate internal control systems in the Federal Government for the following reasons.

First, it would require agency heads to undertake annual evaluations of the adequacy of their organization's systems of internal control. Such evaluations are essential to identifying the areas needing remedial action. We can only assume that, had agency heads made such evaluations in the past, they would have acted on their own to initiate the many corrective actions needed.

The legislation would also require agency heads to report the results of such evaluations. Any material weaknesses in controls would have to be identified and the plans and schedule for remedying those weaknesses described in detail. This requirement can only have the effect of motivating agency heads to get their internal control systems in order.

The requirement for the annual evaluations and reports recognizes the dynamic nature of the internal control environment. Federal agencies are inherently subject to a number of changing conditions which, over time, impact the effectiveness of their control systems. These include such things as normal personnel turnover, changes in agencies' missions and responsibilities, reorganizations within the agencies, and technological and data processing advances. Therefore, regular periodic evaluations are essential to assess the impact of changing environments on internal control systems, and the subject legislation provides for this.

In short, we believe fraud can flourish in an environment where controls are not properly implemented or enforced. We believe agencies should emphasize fraud prevention, rather than simply pursuing it once it occurs. Prevention is especially important since only a low percentage of suspects are prosecuted and agencies often fail to take effective administrative actions against those who commit fraud.

This concludes my prepared statement. My colleagues and I will be pleased to try to answer any questions you may have.

SENATOR ROTH'S QUESTIONS FOR MR. SCANTLEBURY

QUESTION 1

The GAO analysis was made before the positions of Inspectors General, who are charged with detecting agency fraud, were created. Has there been any change in the amount of fraud and the agencies' responses to it since the creation of the IG's?

ANSWER

The creation of the inspectors general was a big step forward in the Government's fight against fraud. For one thing, agencies now have a focal point for dealing with the fraud problem.

The actual impact the inspectors general have had in preventing and detecting fraud is unknown. An evaluation of the impact would require a review of pre and past inspector general statistics on detected fraud and estimates of undetected fraud for each agency. GAO has not conducted a review of the current statistics on detected fraud and does not believe it is possible to estimate undetected fraud.

Since the passage of inspector general legislation and with the expressed interest by Presidents Carter and Reagan, Federal agencies have been vocal about their efforts to eliminate fraud. As you know agencies are required to report to Congress actions taken on inspector general report findings and recommendations. We have not performed the type of detailed agency reviews which would permit a conclusion on the effectiveness of actions actually taken by Federal agencies in cases where fraud occurred.

QUESTION 2

The $220 million cited in the report as the amount of money lost to the government through fraud in the cases GAO reviewed seems to be a small amount in comparison to the billions of dollars which has been estimated previously to have been lost through fraud. Why is this figure so small?

ANSWER

During the overview assessment, we collected data on cases of fraud and other illegal acts identified by the agencies themselves. Thus, our statistics deal only with the known universe of losses. We have no way of estimating how much undetected fraud exists. The dollars identified in our report reflect the types of cases agencies were investigating during the period of time covered by our review. I might add that the cases evaluated were detected in the period before most of the agency inspectors general came on-board. The various estimates of losses ranging in the billions that one hears every day include undetected fraud, waste, and mismanagement.

Further, our universe of cases does not cover all fraud involving Federal funds, only those investigated by Federal agencies. Our estimated dollar loss does not include cases where State or local jurisdictions had prime investigative responsibility. This included most Medicaid and food stamp beneficiary cases. Some of these losses are substantial. For example, in 1977 we reported that the Federal Government might be losing as much as $300 million a year in the food stamp program because of overissued benefits.

QUESTION 3

You have stressed the need in your testimony for vulnerability assessments as an evaluation of the agencies susceptibility to fraud and abuse. You also stated that recent studies showed Department of Labor, Community Services Administration and some Navy activities to be vulnerable to fraud. What factors made it readily apparent to your investigators that these agencies were vulnerable? What administrative actions were made as a result of this report? Would the enactment of the Financial Integrity Act of 1981 assist these agencies in eliminating these problems?

ANSWER

These studies showed numerous weaknesses in fiscal and managerial controls over program and administrative activities we examined which led or could lead to abuse and misuse of Federal funds and assets. For example, in the CETA program we found excess cash maintained by grantees. (One had over half a million dollars more than its grant limit); inappropriate use of CETA funds to buy water meters for installation in private homes; failure of some grantees to verify participant eligibility; inadequate controls over property in the hands of grantees; and the lack of sound controls over CETA payroll disbursements which allowed erroneous and excessive wages to be paid to some participants. In our review of the Community Services Administration and some of its grantees, we found similar problems in the areas of controls over payroll, purchasing, and property management.

Generally our recommendations in these reports instructed the agencies in how they should strengthen their internal controls to prevent fraud, waste, and abuse. Several administrative actions have been implemented since our reviews. For example, at the Department of Labor we found that over 200 employees left the agency owing about $77,000 in outstanding travel advances. We recommended that the Department implement an exit procedure so that the office responsible for controlling travel advances would indicate that the employee had no outstanding advance. The agency concurred with our recommendation and stated that final salary payments would be held up for terminating employees with outstanding advances. In addition, Labor is developing detailed policies and procedures for CETA prime sponsors and subgrantees regarding cash receipts and payments.

Our primary finding in the vulnerability studies was management's lack of adequate emphasis on the importance of internal controls. We believe the Financial Integrity Act of 1981 will assist agencies to reduce the problems we found because the act would require agency heads to undertake annual evaluations of their agencies' internal control systems. If management is required by law to review their agencies' systems of internal controls, more attention and emphasis will be focused on this area and managers at all levels of the organization should then recognize the importance of such controls. As we have said many times before, the key to preventing fraud, waste and abuse is an adequate system of internal controls.

QUESTION 4

Your report's conclusions that inadequate, non-existent or weak internal controls are the basis for 77,000 cases of detected and unknown amounts of undetected fraud. What do you mean when you say that agency "internal control" systems need to be improved? What makes up a good internal control system?

ANSWER

During our review we noted instances where agency control systems were inadequate, nonexistent, or ignored. We believe that strong control systems are a major factor in preventing and detecting not only fraud but also abuse, waste, and mismanagement.

In a broad sense, internal controls are all methods adopted by an agency to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies. Management controls are the procedures used by operating groups, rather than financial and accounting groups, that are concerned with the decision processes leading to management's authorization of transactions. Internal and management controls are not necessarily mutually exclusive because the procedures and records used for management control may also be necessary for internal accounting control.

A good system of internal control can discourage and minimize fraud, waste, and abuse because of two important features--(1) the separation of duties within the system and (2) procedures that govern the authorization, preparation, review, and flow of all transactions through the system. Thus, to succeed in abusing Federal programs or in defrauding an organization having sound internal controls, it is usually necessary for an individual to have the help of others.

Supervisors must play an active role in reviewing operations to ensure that controls exist and are working properly. They cannot rely only on auditors to detect weaknesses or abuses of control systems because audits normally deal with only a small number of transactions that have already transpired.

QUESTION 4 (a)

Will the cost of implementing the needed control systems be worth it in terms of the benefits derived?

ANSWER

We believe that in many instances the personnel needed to provide stronger systems are already in place. In addition, many agency program policy and procedures manuals already contain provisions detailing adequate control systems.

I think the real question should be whether, in this time of tight budgets and intense taxpayer concern for cutting the fat and waste out of Government, we can continue to allow the present loose controls over how Federal money is spent to continue. In many instances it is simply a matter of Federal managers doing their jobs a little bit better.

Further, the benefits of the improved control systems must be measured not only against total dollar costs needed to implement the systems but also in terms of nonmonetary effects. These subjective elements must also be considered in any evaluation of the cost/benefit analysis for internal controls. Public confidence in the Federal Government's ability to adequately safeguard its assets and efficiently and effectively manage its programs would, we believe, be greatly increased as a result of improving systems of internal and management controls.

QUESTION 5

Can you give us an estimate of what GAO suspects may be the amount of undetected fraud including cases involving Federal funds where state and local jurisdictions had primary investigative responsibility?

ANSWER

No. Any such estimate would be purely speculative.

QUESTION 5 (a)

What is the primary reason why so much fraud remains undetected?

ANSWER

I believe this is the case because of the weaknesses identified in agency internal and management control systems and questionable management interest in preventing and detecting fraud.

During our review we found many instances where controls were either inadequate, not followed, or nonexistent. While internal controls cannot put an end to all fraud, we believe many frauds might have been prevented if good control systems had been in place.

In 1978, we reported that a major cause of fraud was the lack of interest by Federal agencies in protecting their programs from fraud. In general, Federal managers are rated on such things as how they manage their budget, how many program participants they sign up, and how many claims they process. These concerns often override concern whether the money is actually spent properly, and, as a result, controls are often neglected.

This belief is reinforced by the recent Merit Protection Board study which found that many Federal employees who observed illegal or wasteful activity failed to report it because they thought nothing would be done about it.

QUESTION 5 (b)

Were you startled by the high percentages of Federal employees documented in the MSPB Report who felt that reporting fraud was useless?

ANSWER

Yes, I was surprised but perhaps I shouldn't have been considering the low priority often given to the financial management of agency resources.

QUESTION 5 (c)

Were you surprised by the 45% of individuals who either personally observed or obtained direct evidence of wasteful or illegal activity within the past year?

ANSWER

Yes, the percentage seemed very high to me.

QUESTION 5 (d)

How many of the GAO "Hot-Line" callers are government workers? According to the MSPB report, a little over 1% of the 8,600 employees who took part in the survey reported their findings to GAO. Do you have any idea why so few called the "Hot-Line"?

ANSWER

Twenty-eight percent of the calls we receive over the fraud hotline are from Federal employees. The GAO Hotline is targeted to the general public. Although we welcome calls from Federal employees, we do not widely publicize the Hotline to Government workers because most of the Inspectors General of the Federal agencie's have their own hotlines which are targeted toward Federal employees. Therefore, it doesn't surprise me that such a low percentage of Federal workers reported their allegations to GAO.

QUESTION 6

GAO recently did two reports on the shortcomings of the Operations of the Office of Special Counsel at MSPB. Could you briefly summarize the key points in the problems that office faces in being watchdog for the whistleblower?

ANSWER

Last December we reported to the Congress that the handling of whistleblower complaints within the Office of the Special Counsel of the Merit System Protection Board could be better managed. We reported that serious startup problems, delays in case processing, poor communication with whistleblowers, and inadequate follow-up to of agencies' complaints jeopardized the Special Counsel's relationship with whistleblowers.

In order to reduce the delays in case processing--we found it took the Special Counsel an average of 195 days to process a case--we recommended that the Special Counsel's office control its caseload by placing a high priority on improving its case-tracking/monitoring system. We also recommended that the Special Counsel improve its communication with whistleblowers to assure that their allegations are clearly understood and that they are kept informed of the progress of their cases.

QUESTION 7

Could you elaborate on why recoveries of fraud losses are so low?

ANSWER

As part of our overview assessment, we did not examine the reasons for the low recovery rates. However, as you are aware, the collection of debts owed the government has been a serious problem. In two recent studies, we reported on the lack of aggressive collection efforts by agencies, billions of dollars owed to the Federal government, disagreements between agencies which needed to be resolved in order to collect debts, and the potential for significant improvements.

We have also done some preliminary work in the area of fraud recoveries. In doing our preliminary work we have heard a variety of reasons from agency personnel for failing to pursue fraud recoveries. Some of the reasons given are that:

--suspects are often broke and can't repay the Government;

--the statute of limitations sometimes runs out before recovery action is taken;

--the Department of Justice is often slow to collect judgements against defendants;

--criminal action against suspects is often not geared toward recoveries; and

--there is a lack of incentive on the part of agencies to collect losses due to fraud.

In the Fall we plan to start a review which will include an indepth look at the problems or recovering fraud losses.

QUESTION 7 (a)

Do court-ordered restitutions or administrative actions seem to reap the most in recoveries?

ANSWER

As we pointed out in the report, we did not attempt to determine the amounts of planned recoveries actually recovered. However, of the total planned recoveries of $43 million agencies planned to recoup $29 million through administrative actions and $14 million through court-ordered restitutions.

QUESTION 8

Can a comparison be made of the incidence of fraud in the Government and the experiences of large private corporations?

Why isn't the Accounting and Auditing Act of 1950 working? Could the Government get a certified financial statement like private industry?

ANSWER

I do not think a fair comparison can be made between Government and industry. Several significant differences exist between Government and private industry.

- *--Companies operate under a profit motive. Nonprofitable programs are terminated. In general, the goals of Government programs are not profit-oriented.*

- *--Internal control reviews are conducted by internal audit operations and independent certified public accountants on an annual basis for all large companies. This is not the case in the Government. Some Government activities go unaudited for years.*

- *--Top level management and program management is fired when program operations are not run efficiently and effectively in industry. That is not the case in the Government. Unlike his or her counterpart in private industry, a Federal manager's performance is often rated on how fast he or she spends Federal dollars, and not whether they are put to the best use.*

With regard to the Accounting and Auditing Act, progress has been slower than desireable in getting systems approved by the Comptroller General. However, about 2/3 have been approved.

Some agencies have made commendable progress in developing sound accounting systems. Even so, taken as a whole, the Federal Government probably could not get a certified financial statement without a very sizable cost and the benefits have not yet been deemed adequate to justify the cost.

QUESTION 8 (a)

What are the key elements that go into a GAO approval of a Government accounting system?

ANSWER

In general, we look to see that an accounting system provides:

- *--full disclosure of financial operations;*

- *--adequate and reliable information needed by managers for managing their operations;*

- *--effective control over income, expenditures, funds, property, and other assets; and*

- *--assurance that transactions are executed according to management's authorization (i.e., adequate internal controls).*

QUESTION 8 (b)

I am shocked that over one third of the Federal agency accounting systems which control over 50% of the Federal budget have not been approved. Is the reason for this budgetary restraints or simply lack of caring by the agency heads?

ANSWER

Agencies do not always provide adequate resources to the development of accounting systems designs that meet our requirements. This is due to the fact that top managers often give low priority to developing such systems.

QUESTION 8 (c)

Will the Financial Integrity Act of 1981 assist in the effort to control fraud through stronger internal control systems?

ANSWER

I certainly think so. The Financial Integrity Act of 1981 would require greater accountability by agency heads for seeing to it their agencies had effective controls for preventing fraud, waste, abuse, and error.

QUESTION 9

Do you see an "attitude" on the part of Federal managers that they are more interested in spending money than saving it and how can that be remedied?

ANSWER

Yes, unfortunately Federal managers often seem more interested in getting Federal dollars out the door than seeing to it that they are spent properly. Agency and program management must be given strong incentives to improve the systems of control over their programs and to improve the efficiency and effectiveness of program operations. We believe that one way to bring home the point is to include clauses in Senior Executive Service (SES) contracts which call for taking specific actions and meeting certain milestones to improve internal controls during each rating period. The degree to which a manager meets these milestones would influence the bonus received for the year. It would also be a point for consideration in evaluating the manager's potential under the system and continuation in the SES program.

QUESTION 10

Are there any agencies which do have good fraud prevention programs? Does any agency stand out as being particularly susceptible to fraud based in the GAO report?

ANSWER

All Federal agencies could improve their fraud prevention efforts. In 1978, we reported that a major cause of fraud was the lack of interest by Federal agencies in protecting their programs from fraud. In this review, we found a much higher awareness of the need to protect programs from fraud but this awareness was often not acted upon. Program management is frequently unconcerned with enforcing the controls needed to prevent fraud. As a result, controls are often neglected.

We believe top Federal managers need to be more concerned with ensuring that effective internal controls are operating. Top managers must insist that middle managers make sure that all operations for which they are responsible contain controls to minimize fraud, waste, and abuse and to ensure effective performance of tasks. When middle managers and employees sense the concern for strong controls they will more likely to make sure that effective controls are followed.

Our report "Fraud In Government Programs: --How Extensive Is It?--How Can It Be Controlled?" lists the number of fraud cases detected by 21 Federal agencies during the 2-1/2 year period covered by the review. The data collected shows that the Social Security Administration, U.S. Postal Service, Department of Agriculture, and Departments of the Army and Navy accounted for 86 percent of the fraud detected.

Analyses and conclusions based on this data must be carefully made and several points should be kept in mind. We did not attempt to evaluate the investigative procedures used or the evidence developed, nor did we independently develop lists of fraud cases, or verify lists provided by each agency. As a result, conclusions that one agency has better fraud detection systems than another because it discovered more cases are not necessarily valid. It would also be incorrect to conclude that because one agency has identified more fraud than another it is more prone to fraud, less well managed, or other wise not fulfilling its responsibilities.

QUESTION 11

MSPB reported that most government employees are not aware of the various channels established to receive reports of fraud. What can be done about this?

ANSWER

Mr. Harper of OMB has pointed out that most agencies have been taking actions to publicize the channels established to receive reports of fraud. We believe that all agencies should be required to provide their employees information on the channels available to them for reporting fraud, waste, and abuse on a continuous basis.

QUESTION 12

How easy, in your opinion, would it be to steal from federal agencies given the inadequate condition of agency internal controls?

ANSWER

I regret to say that I believe it is often very easy.

QUESTION 13

This report contains a lot of summary data for all 21 agencies. Is information on specific agencies available and can you make more detailed analysis and comparisons?

ANSWER

The information is available and will be included in the two additional volumes we will issue as part of our overview effort. Volume II will provide a more detailed discussion and statistical analysis of the data. Volume III will contain fraud profiles for each agency. These reports will be issued by the end of the summer.

QUESTION 14

The report indicates that 61 percent of all fraud cases referred to the Department of Justice for criminal prosecution are declined. The report also indicates that of 393 cases referred for civil fraud action only 28 resulted in civil cases. Do you envision that an administrative penalty would be used in a majority of cases where legal action is not taken.

ANSWER

We believe that civil fine authority could be a useful enforcement tool for agencies in those cases where the Department of Justice declines to initiate criminal prosecution or civil suits. It is hard to predict the number of cases in which agencies would use such authority. If such authority is granted, we will be watching closely how effectively agencies use it. We believe by providing agencies this alternative to prosecution, they will have less of an excuse for inaction in cases that Justice declines to prosecute.

QUESTION 15

Who should set standards for internal controls within the agencies--GAO or OMB?

ANSWER

GAO is required by the Budget and Accounting Procedures Act of 1950 to set the accounting principles, standards, and related requirements for the Federal government. Agencies are required by the same law to have systems of accounting and internal control which conform to GAO's standards. The non-partison and independent nature of GAO puts it in the best position for assuring that standards for internal controls are consistently maintained. The statutory requirement for sound internal controls with oversight by GAO provides more assurance that adequate controls are developed and maintained than administrative requirements alone which might be sporadically enforced.

QUESTION 16

Although over 36 percent of the Government's accounting systems have not been approved, Mr. Harper implies that the reasons for this are not that great and that the problem isn't really a problem. What is your comment on this?

ANSWER

A 36 percent nonapproval rate 31 years after enactment of the law requiring approval of all executive agency accounting systems is obviously not a good record for executive agencies. To put the situation in proper perspective, it must also be pointed out that among this 36 percent are some of the largest and most complex systems in the Government that account for the expenditures of more than half of the Federal budget.

The principal reasons why 36 percent of the accounting systems have not been approved are:

--The written material describing how the system is supposed to work is not clear enough for either agency people or GAO to understand it.

--The system designs have serious accounting or internal control deficiencies.

Approval of an accounting system is not an easy process from either our standpoint or that of the agencies. We have about 40 accountants and automatic data processing systems analysts working to accomplish this work.

We perform in-depth evaluations of accounting requirements and specifications as well as of automated controls and audit trails. If the documentation doesn't adequately describe the essential features that we must review, tell whether the system will work effectively or not and neither can the agency people who have to operate it, approval of such a system would not be a proper fulfillment of our responsibilities. Also, if the documentation shows that the system fails to meet some essential requirement or requirements we cannot approve it.

We consider approval of accounting systems a worthwhile goal because our experience has shown that approved systems are generally better systems. They produce more useful information to help management operate the organization effectively and efficiently and help management prevent fraud, waste, and abuse.

The problems involved with securing approvals of systems will only diminish when agencies give proper priority and apply the resources necessary to submit their systems and to make changes that may be required to incorporate proper accounting techniques.

SENATOR COHEN'S QUESTIONS
FOR MR. SCANTLEBURY

QUESTION 1 (a)

Mr. Scantlebury, Section 405 of the Civil Service Reform Act of 1978 outlines five general areas on which the performance Evaluations of Senior Executive Service (SES) personnel are supposed to focus.

Those areas are:

(a) Improvements in efficiency, productivity, and quality of work or service, including any significant reduction in paperwork;

(b) Cost efficiency;

(c) Timeliness of performance;

(d) Other indications of the effectiveness, productivity, and performance quality of the employees for whom the Senior Executive is responsible; and

(e) Meeting affirmative action goals and achievements of Equal Employment Opportunity Requirements.

However, there is no specific mention of a manager's responsibility to either identify instances of fraud in his/her office, or to take punitive action against those who are fraudulent in his/her office.

Do you feel that there is a need for such a specific provision in a Senior Manager's performance evaluation?

ANSWER

Yes. Although we have not developed a specific proposal, we believe that such a provision would make Federal managers more alert to potential situations of fraud and abuse against their programs. Such a provision should include the requirement that managers (1) establish and enforce adequate controls to prevent fraud, (2) develop programs to make their employees aware of the need to be alert to fraud, and (3) establish and enforce procedures to assure that allegation's of fraud and abuse are handled fairly and expeditiously.

QUESTION 1 (b)

Are there specific disadvantages in such a provision?

ANSWER

No. I do not believe there are any serious disadvantages.

QUESTION 1 (c)

Do you feel that the current performance evaluation process provides a Manager with sufficient incentives to consciously guard against fraud, and to initiate follow-up action when he/she identified fraud?

ANSWER

No. there is generally little incentive for managers to ensure programs have the controls needed to prevent fraud and to pursue fraud once it occurs. In fact, the current performance appraisal process may discourage managers from guarding against fraud because managers often see internal controls not for what they are--protections against fraud and error--but rather as unnecessary impediments to providing government services.

QUESTION 2 (a)

Mr. Scantlebury, you noted in your testimony that the Accounting and Auditing Act of 1950 requires agency heads to establish and maintain effective internal administrative and accounting control systems. You added that the act requires GAO to approve an agency's accounting system--and that GAO regularly advises agencies that their systems will not be approved unless they have effective internal controls.

You noted that GAO has approved about two-thirds of the Government's estimated 300 accounting systems. But you added that one-third of those systems--which control 50% of the Federal budget--are unapproved.

Are they unapproved because GAO has not been able to review them yet, or is it because they have already failed a review?

ANSWER

Both reasons apply. We have been working actively with the agencies to help them develop accounting systems that meet our standards. Even so, we have found many systems where the agency has not accumulated and written down the essential features of how the system will work which we need for reaching a decisfon on whether or not the system meets the Comptroller General's standards and therefore can be approved. In other cases, we have not approved systems because of serious accounting or internal control deficiencies we have found during our evaluation.

In those cases where the written material, called systems documentation, is inadequate or lacking in specific detail, we send the systems documentation back to the agencies and attempt to work with them to get their documentation in order. Unfortunately, agencies are sometimes unwilling to commit the resources necessary to adequately document their systems. I might add that such documentation is needed by agency managers themselves if they are to adequately monitor and enforce the operation of their accounting systems. Likewise, many agencies are hesitant to correct the accounting problems that have prevented us from approving a system because they do not see the necessity for the accounting requirement or they are hesitant to commit the resources necessary to correct the problem which can be substantial with today's ADP equipment. In most cases *by working closely with the agencies, we have been able to resolve the accounting questions that have prevented us from approving systems.*

QUESTION 2 (b)

(If the latter) what are the main problems with the accounting systems of those agencies?

ANSWER

We have found a variety of problems with agency accounting systems which have precluded our approving them. Some of the mainproblems with the accounting systems have been:

--lack of proper cost accounting and reporting;

--inadequate control of funds appropriated for agency programs;

--failure to maintain agency property under general ledger control; and

--weak internal control systems.

As you can see, the problems we have found are significant. They directly impact on the ability of Federal agencies to properly manage the use of the taxpayers' money.

QUESTION 3

In your testimony you noted that you support S. 864 (The Financial Integrity Act of 1981) and H.R. 1526 (The Federal Managers' Accountability Act of 1981). You noted that both would require agency heads to undertake annual evaluations of their organization's internal control systems, and report the results to the Congress and to the President.

What do you feel would be the connection--if any--between those annual evaluations and the President's Council on Integrity and Efficiency?

ANSWER

I believe the President's Council on Integrity and Efficiency will provide a useful forum for the Inspectors General to share their ideas and experiences on a wide range of issues. I do not see any direct connection between the Council and the performance of the evaluations in an operational sense. Even so, I think it would be useful for the Council to review the evaluations in order to identify common problems and to apply the lessens learned to their own agencies.

Chairman **Roth**. Gentlemen, I thank you very much for joining us today. We look forward to continuing to work with you on this matter.

I will include as part of the record a statement by Congressman Norm Dicks.[1]

The committee is in recess subject to the call of the Chair.

[Whereupon, at 12 meridian, the hearing was recessed subject to the call of the Chair.]

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[1] See p. 96.

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT OF REPRESENTATIVE NORM DICKS

before the

SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

May 19, 1981

Mr. Chairman, I want to thank you for this opportunity to testify before the Senate Committee on Governmental Affairs. It is indeed an honor to present my views before this panel which has, so often, played a central role in passing legislation that has improved the effectiveness and responsiveness of the Federal government.

In February of this year, the Gallup Poll conducted a nationwide survey which asked a very simple question: "Of every tax dollar that goes to the Federal Government in Washington D.C., how many cents of each dollar would you say are wasted?" The answer spoke volumes — 48 cents. In other words, Americans think that almost half of the money they pay to Uncle Sam simply disappears through fraud, waste, abuse, or inefficiency.

At a time when citizens are being asked to make painful sacrifices in the name of cutting government spending, is it any wonder they are so skeptical about the federal government when they think half their money is being tossed out the window? We've clearly got our work cut out for us. We've not only got to correct the basic problems that allow fraud and waste, but we have to once again establish confidence among our citizens that we are doing all we can to correct such problems.

GAO REPORT ON FRAUD

During the past several months, a number of reports by the General Accounting Office, the Office of Management and Budget, and other organizations have discussed the problems of waste and fraud in government. In particular, GAO's new report--entitled "Fraud in Government Programs: How Extensive Is It? How Can It Be Controlled?"--focuses on both the extent of such problems and some of their basic causes.

"Fraud against Government programs is widespread," says GAO. "It undermines the integrity of Federal programs and makes people lose confidence in public institutions.... Most fraud is undetected. For those who are caught committing fraud, the chances of being prosecuted and eventually going to jail are slim. Further, agencies do not always use the administrative actions available to deter persons from committing fraud. The sad truth is that crime against the government often does pay."

I know that most members of the Committee are familiar with this report, but I would like to spend a few moments highlighting some of its main points.

First of all, GAO reviewed over 77,000 cases of fraud over a two-and-a-half year period. It found that fraud existed in all 21 agencies it looked at -- no agency was immune. About half of the cases, 37,519, involved theft, with a total of 86 percent of the detected fraud occurring in five agencies -- Social Security, the Postal Service, Agriculture, the Army, and the Navy. The total cost of the fraud ranged from $150 million to $220 million, although this did not include fraud investigated by state organizations and did not include the much broader category of waste, abuse, and inefficiency.

According to GAO, one of the major causes of all of this fraud is that internal systems of control within agencies -- systems designed to prevent fraud and assure that money is spent properly -- are in poor shape. Internal controls are often inadequate, non-existent, or ignored.

Consider the case involving the alleged embezzlement of almost $2 million over a 3-year period from CHAMPUS -- the civilian medical and health program in the military. A civilian program administrator apparently embezzled the money by preparing and certifying 3,300 phony medical claims. He was allegedly able to steal the money because he falsified claim forms and later certified the fraudulent claims for payment. With decent controls, this crime might've been prevented.

In another case discussed by GAO, a clerk at the Military District of Washington D.C. Finance and Accounting Office used her official position to have 12 fraudulent payroll checks totalling about $17,000 issued to two accomplices. Once again, the absence of internal controls over separation of duties allowed her to carry this out. Following another review, three more employees were found guilty of fraud amounting to $16,000 in the same office.

Of course, there's nothing new about the sad state of internal controls within many agencies. GAO's report from August 1980, entitled "Continuing and Widespread Weaknesses in Internal Controls Result in Losses Through Fraud, Waste, and Abuse," indicated clearly that such problems occur throughout government. For example:

- Money collected at many fiscal offices was subject to loss or misuse because of inadequate controls over recording, depositing, and safeguarding funds and failure to segregate duties. One office lost $12,000 because it allowed funds to accumulate for several weeks and, in some cases months, before depositing them.

- Expenditures at many offices were subject to diversion and misuse because of inadequate checks on the propriety, accuracy, and legality of payments. At one location, a financial clerk was able to embezzle over $856,000 because the office did not adequately audit vouchers before payments were made.

- Government transportation requests in many locations were susceptible to conversion for personal use because of inadequate safeguards and controls. One fellow ran up a $30,000 travel bill for himself and his buddies because nobody was checking up on him.

- Imprest funds -- sometimes referred to as petty cash -- were often exposed to risk of loss, theft, or misuse. One fiscal office that was not following requirements on safeguarding cash lost over $200,000. The money was stored in an unlocked box in a safe whose combination was widely known.

Unfortunately, Mr. Chairman, these serious weaknesses in internal controls are only made worse by the fact that too many program managers for some reason are not very concerned about reducing waste. They are more concerned about how many people they have in their program or how much money they spend, rather than on how well it is spent. And many feel that the job of stopping waste belongs to somebody else -- not them.

"Managers are rated on such things as how much money they spend, how many program participants they sign up, and how many claims they process," says GAO. "These concerns often override concern over whether the money is actually spent properly, and as a result, controls are often neglected."

Consider for a moment that almost 25 percent of the fraud went undetected for 6 months or more. In 17 percent of the cases, fraud went undetected for over a year. That, in itself, shows the poor condition of internal controls and the lax attitude held by many program officials. Unfortunately, the cases that took longer to discover accounted for a proportionately larger percentage of dollar losses. A mail specialist who was responsible for inspecting packages mailed to the U.S. from foreign countries was able to steal jewelry and other items at the rate of $1,000 a day for over 3 years.

Finally, GAO points out that agencies should be doing more to assure that those who defraud government are properly punished, either administratively or through the courts. About 22 percent of the 45,000 fraud cases where the participant was known did not result in administrative action. Beyond that, the Justice Department turned down over 60 percent of the cases it received from agencies.

WHISTLEBLOWERS STUDY

I'm afraid that this rather disturbing picture of fraud and waste is reinforced by a new report by the Merit Systems Protection Board on government whistleblowers -- government employees who report wrongdoing they see within federal agencies.

Although this study was aimed largely at whether whistleblowers are properly protected, it provides some useful insights into the problems of waste in government. For example:

- Nearly half of the 8,600 respondents claimed to have personally observed or obtained direct evidence of a wasteful or illegal act in the past year.
- Almost 25 percent of all employees who responded claim personal knowledge of fraudulent or wasteful actions involving more than $1,000. Nearly one out of every ten employees claimed to know of waste exceeding $100,000.
- The biggest impediment to reporting fraud was not reprisal -- which was, in itself, serious -- but the belief among federal employees that nothing would be done about the problem.
- Of those who did report wrongdoing, only about 25 percent could claim that the problem was even partially resolved. About 40 percent said the problem was not resolved at all.

Among other things, the report concludes that, "What is needed is a far-reaching change in attitudes and beliefs within the Federal workforce. By actions as well as by words — and more importantly by the attitudes evidenced by officials and supervisors at all levels — employees must become convinced that their observations are welcomed by their own management, will be given serious consideration, and will be acted upon where the facts warrant. The federal workforce as well as the general public, needs to be convinced that the Government is serious about eliminating fraud, waste, and mismanagement."

ACTIONS NEEDED TO BE TAKEN

Mr. Chairman, I could detail further studies and investigations which discuss the extent of fraud and waste in government, but I won't take the time to do so. I think the two reports I've mentioned today sufficiently paint a troubling picture that we in Congress and all federal agencies must address immediately. It is a picture which shows that most, if not all, federal agencies are afflicted by waste and fraud — in many cases, such problems are very costly; in other cases, they simply harm the operation of the program. It is a picture which shows that the systems to prevent waste and fraud often are not in place and if they are, they often do not operate adequately. It is a picture of agencies that are more interested in handing out money, than in seeing to it that it is spent properly.

I am not suggesting that all federal programs are overrun by waste, but some of the internal systems that are supposed to assure the proper use of tax dollars are simply out of kilter. That is a very serious state of affairs.

In my view, Congress must take a variety of actions to deal with this problem. We must exercise constant, far-reaching oversight to find out whether the programs within our jurisdiction are working properly and are placing proper emphasis on reducing fraud and waste. We have to provide adequate support to Offices of Inspector General -- a vital line of defense against waste. We've got to make sure that agencies are taking action against those who defraud the government and are fixing the problems that allowed fraud to occur in the first place. We've got to make sure that all federal program managers understand that one of their highest priorities is to stop waste.

Beyond that, however, Congress must take legislative action. I have co-sponsored several pieces of legislation which I believe are necessary in this effort.

First, I am cosponsor of H.R. 1526, the Federal Managers' Accountability Act of 1981. This legislation, as you know, will help make top federal managers more responsible in assuring that effective systems of internal control are working. The GAO report not only strongly endorses this bill, but it provides more than adequate evidence of the need for increasing management concern over internal controls.

Under this bill, agency heads will have to explain whether their internal controls -- ranging from good accounting to theft prevention -- are adequately preventing fraud and waste and assuring that tax dollars are being spent effectively. If those controls are not doing the job, agency heads will have to explain how they intend to correct them.

I am also cosponsoring H.R. 2098, the Inspector General Act Amendments of 1981, which will create Offices of Inspector General in the Departments of Defense, Treasury, Justice, and in the Agency for International Development. These offices will have, as their main duty, the reduction of waste, fraud, and inefficiency. In my view, it is vital that these agencies have top-notch, independent wastewatchers to assure that tax dollars are used properly. I am pleased to note that President Reagan has been quoted in the media as supporting such offices.

Beyond that, I am cosponsoring another bill, H.R. 2811, which will help improve government debt collection by allowing agencies to report overdue creditors to credit bureaus. In this way, those who don't pay their debts to the government will be faced with having their credit rating reflect that fact. Both GAO and OMB have strongly endorsed this legislation. I mention this bill in the same context with the others because poor debt collection is a serious problem in government and is costing taxpayers dearly. Currently, $25 billion is overdue the government and it costs the taxpayers $3 billion annually just to finance those debts. When we talk about improving the effectiveness of government, we've got to include improving government debt collection.

Mr. Chairman, I don't think there can be any doubt about the seriousness of the problems that currently exist in the federal government involving fraud and waste. The reports we have discussed today only reinforce that point and focus our attention on the basic, internal control problems that need to be fixed. Nor can there be any doubt about the concern expressed by the American taxpayers. They see fraud and waste and they expect action.

As I said, the most effective method of dealing with these problems is to address the basic causes of waste -- poor internal controls, lack of management concern, ineffective efforts in stopping waste. I believe the legislation I have discussed today -- along with persistent, aggressive oversight by Congress -- is essential in getting at those problems.

Unfortunately, we cannot legislate a bill that will wipe out all fraud or automatically assure good government. But we can and must keep up the pressure on agencies to correct these problems and to create an atmosphere where all employees understand that reducing waste and assuring the proper use of tax dollars is a top priority.

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Fraud In Government Programs: --How Extensive Is It? --How Can It Be Controlled?

Volume I

Fraud against Government programs is widespread. It undermines the integrity of Federal programs and makes people lose confidence in public institutions.

Good systems of internal controls would prevent much of the fraud, or at least detect it sooner. However, controls over Federal programs are often inadequate, nonexistent, or ignored.

Most fraud is undetected. For those who are caught committing fraud, the chances of being prosecuted and eventually going to jail are slim. Further, agencies do not always use the administrative actions available to deter persons from committing fraud. The sad truth is that crime against the Government often does pay.

Agency inspectors general and the Department of Justice are making progress in the fight against fraud. However, more needs to be done to prevent fraud and to punish those who commit fraud.

UNITED STATES GENERAL ACCOUNTING OFFICE

AFMD-81-57
MAY 7, 1981

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-201976

To The President of the Senate and the
Speaker of the House of Representatives

This is the first volume of a three-volume report which discusses the results of a statistical analysis of fraud and other illegal activities affecting 21 Federal agencies. The analysis was undertaken by our Fraud Prevention Task Force which was established to respond to growing public concern over abuses and misuses of taxpayers' money.

Copies of this report are being sent today to the Director of the Office of Management and Budget and to the heads of the agencies covered in the study.

Milton J. Socolar
Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FRAUD IN GOVERNMENT PROGRAMS:
--HOW EXTENSIVE IS IT?
--HOW CAN IT BE CONTROLLED?
Volume I

DIGEST

Fraud is willful wrongdoing by individuals or public and private organizations that affects the Government's interests. Despite the fact that so much has been written and discussed about fraud in Government programs, there is little concrete information as to its extent and characteristics. Without such data, it is hard to effectively detect and prevent wrongdoing. To rectify that situation, GAO made a statistical analysis of over 77,000 cases of fraud and other illegal activities reported in 21 Federal agencies during the 2-1/2 year period, October 1, 1976, through March 31, 1979.

FRAUD IS COSTLY

A statistical projection by GAO indicates that the loss to the Government on the 77,000 cases would total between $150 and $220 million. These losses are only what is attributable to known fraud and other illegal activities investigated by the Federal agencies in this study. It does not include, of course, the cost of undetected fraud which is probably much higher because weak internal controls allow fraud to flourish. Also, this estimate does not include cases involving Federal funds where State and local jurisdictions had primary investigatory responsibility. Some of those losses were substantial.

Losses due to fraud and related illegal activities are seldom recovered. Although agencies planned to recover between 20 and 29 percent of their losses either through court ordered restitutions or administrative actions, GAO believes that actual recoveries are probably much lower. GAO plans, in another study, to address how agencies can increase the recovery of fraud losses. (See pp. 4-5.)

The cost of fraud and illegal activities cannot always be measured in dollars and cents. Fraud erodes public confidence in the Government's ability to efficiently and effectively manage

Tear Sheet. Upon removal, the report cover date should be noted hereon.

its programs. In addition, fraud undermines program effectiveness. In some instances illegal activities have adversely affected public health and safety. (See p. 15.)

FRAUD IS WIDESPREAD

Many types of individuals and organizations commit fraud against the Government. Government employees committed about 29 percent of the frauds included in GAO's study. These employees represented four-tenths of one percent of the total Federal work force in the 21 Federal agencies reviewed by GAO. Other individuals and organizations committed about 40 percent. In the rest of the cases, suspects were never identified. Federal employees detected the majority of the reported frauds. (See pp. 6-7.)

Federal agencies were susceptible to hundreds of different types of fraudulent activities in a wide range of areas. However, four areas were especially prone to fraud:

--Financial assistance to individuals.
--Inventory control and property management.
--Mail service.
--Personal property management.

The types of illegal activities which occurred most often were false statements and theft. (See pp. 8-15.)

CONTROLS TO PREVENT FRAUD ARE OFTEN WEAK

Internal controls are checks and balances over all fiscal and managerial activities of an organization. The controls are designed to prevent the misuse or abuse of money or property. GAO found that weak internal controls often contributed to cases of fraud and other illegal activities. GAO analyzed the adequacy of internal controls for selected cases and found many instances where controls were either inadequate, not followed, or nonexistent. (See pp. 16-19.)

MANY CASES ARE NOT PROSECUTED

For a variety of reasons, the Justice Department declined to prosecute 61 percent of the over 12,900 cases referred by Federal agencies. Although Justice got a conviction or guilty plea in the majority of cases it did prosecute, the courts often suspended large portions of the sentences or granted probation. About one-third of those sentenced actually spent time in prison.

Fifty-seven percent of those who went to prison were sentenced to 6 months or less. At the other end of the spectrum, over a quarter of those who went to prison were sentenced to serve over 2 years. Information on how much time the individuals actually spent in prison before parole was not readily available. (See pp. 28-32.)

In addition to criminal prosecutions, the Department of Justice can take civil legal action against persons who defraud the Government. The primary civil fraud statute, the False Claims Act, allows the Federal Government to recover double damages from those who make false claims for such things as reimbursement under Government contracts or false statements in applying for benefit programs. It also allows the Government to recover one $2,000 forfeiture for each false claim made. Justice took civil action in 28 of the 393 fraud cases Federal agencies referred for such action during the period of GAO's review.

Following an October 1979 GAO report which concluded that Justice had not emphasized the civil aspects of fraud cases and needed to better coordinate criminal and civil actions, Justice put greater emphasis on coordinated criminal and civil prosecutions of Government fraud cases. (See pp. 32-34.)

AGENCIES DO NOT ALWAYS TAKE EFFECTIVE ADMINISTRATIVE ACTIONS

Agencies did not always take administrative action against individuals who committed fraud. When the agencies did act it was not always in a way that would deter others from defrauding the Government. For example, one of the major actions against individuals defrauding the Government was declaring them ineligible to participate in the programs they defrauded. This can be an effective deterrent in those cases where eligible program participants are seeking excessive benefits. However, the deterrent effect of this action is nil in those instances where the individuals never were eligible for the programs. (See pp. 34-38.)

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PROGRESS IS BEING MADE IN COMBATING FRAUD

In 1978 GAO reported that Federal agencies were not aggressive in detecting fraud and had not fixed responsibility for identifying fraud in agency programs. GAO also reported that the Department of Justice had been slow to assist, coordinate, and monitor antifraud efforts of Federal agencies. Since then, progress has been made in these areas.

Congressional establishment of offices of inspectors general in 15 Federal agencies has provided an independent focal point for fraud detection and prevention. Among other things, inspectors general have worked together to address common problems, have undertaken joint audits and investigations, and have taken more active approaches in dealing with fraud and other illegal activities. (See pp. 40-43.)

The Department of Justice has also tried to upgrade Federal antifraud activities by (1) reorganizing certain Justice components to offer better services to agencies and allow Justice headquarters to work more efficiently with U.S. attorneys, (2) increasing specialized fraud training for Justice and agency personnel, and (3) working closely with the inspectors general through the Executive Group to Combat Fraud and Waste in the Government--an organization set up by the President in 1979 as a communication network for the inspectors general to share ideas and problems. (See pp. 43-45.)

CONCLUSIONS

Fraud and illegal acts against the Federal Government are a widespread problem. Once they are allowed to occur, the Government fights a losing battle because losses are seldom recovered and the perpetrators are seldom punished.

Weaknesses in internal controls often allow fraud to occur. Given the poor state of controls in many programs, it is probable that most fraud remains undetected.

GAO believes that the key to fighting fraud is to improve internal controls so that fraud and related illegal acts are more difficult to commit. Internal controls in Government are often ineffective and fraud and related illegal acts are easy to commit. Federal managers must ensure that controls are understood, encouraged, and enforced.

Each Federal agency is required by the Budget and Accounting Procedures Act of 1950 to maintain adequate systems of internal control. GAO believes that internal controls can be made more effective by strengthening existing law. The Congress is considering legislation which would require greater accountability by the heads of agencies for the effectiveness of their organizations' internal control systems. The Federal Managers' Accountability Act of 1981 (H.R. 1526) would, among other things, require agency heads to periodically evaluate controls and report the results to the Congress and the President. GAO believes this legislation would contribute to the development of adequate internal control systems in the Federal Government.

Auditors have an important role in assisting management by testing internal control systems and recommending needed improvements. Auditors can help prevent fraud by keeping surveillance over the effectiveness of internal controls.

GAO believes that the prevention of fraud and related acts through effective systems of internal control is top priority. It also recognizes the deterrent effects of punishing perpetrators. Because the number of cases makes it impossible for the Department of Justice to prosecute every case of fraud referred to it by Federal agencies, it is even more important that Federal agencies take effective administrative actions when warranted. In addition, GAO believes that civil fine authority could be a useful enforcement tool for agencies whose cases the Department of Justice declines to act on.

The Department of Justice is now completing draft legislation which would allow agencies to levy civil monetary penalties. This legislation would authorize Federal agencies to institute administrative proceedings and to levy civil penalties and assessments against persons who defraud the Government. The authority would be triggered when Justice declines to take action but recommends that the agency levy a fine. GAO has not had the opportunity to comment on the specific legislation being developed by Justice. However, GAO endorses the concept of allowing agencies to levy civil monetary penalties against those who defraud their programs.

RECOMMENDATION TO THE CONGRESS

GAO recommends that the Congress enact the Federal Managers' Accountability Act of 1981.

MATTERS FOR THE CONGRESS TO CONSIDER

The Congress should consider the merits of enacting legislation to allow agencies to assess civil monetary penalties against persons who defraud Federal programs. The authority to assess such a penalty should be effective when the Department of Justice declines to take criminal or civil action on a case.

RECOMMENDATION TO THE DEPARTMENT OF JUSTICE

The Department of Justice should expedite completion of its draft legislation to give agencies the authority to levy civil monetary penalties and should submit the legislation to the Congress for its consideration.

AGENCY COMMENTS

GAO gave each of the agencies covered in the review a chance to comment on a draft of this report. Ten agencies commented--nine generally agreed with the findings, conclusions, and recommendations; the Department of Transportation disagreed. Chapter 7 is an analysis of the comments. The text of each agency's comments is presented in appendixes II through XIV.

The Office of Management and Budget stated that fraud and abuse in the Federal Government must be controlled as quickly as possible and agreed that improved control systems can contribute significantly to solving the problem. The Office stated that it is reviewing the proposed legislation and is also considering administrative requirements for adopting and maintaining more effective internal control systems. (See pp. 61-62.)

The Department of Justice stated that this report reflects a balanced understanding of the Government actions required to effectively respond to the problem of fraud and abuse in Federal programs. In terms of the overall message, the

Department agreed that the cost of fraud and related illegal activities is substantial and that prevention of such activities through effective systems of internal control should be a top priority. The Department plans to continue pursuing this objective in its work with other departments and agencies. The Department believes that the report focused primarily on the efforts of other agencies, and provided a number of comments on some of its own more recent efforts as well as on what it perceived to be some inaccuracies and omissions. (See pp. 70-78.)

The Department of Transportation believes the report oversimplifies the solution to combating fraud by claiming that sound internal control systems are the answer to fraud and illegal activities. The Department also believes additional legislation to improve controls is unnecessary. GAO recognizes that internal controls cannot prevent all fraud, but believes that good systems of control can prevent much of it. GAO believes that the Federal Managers' Accountability Act of 1981 would further encourage agency heads to develop and enforce adequate internal control systems. (See p. 83.)

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ABBREVIATIONS

DLA	Defense Logistics Agency
DOD	Department of Defense
DOE	Department of Energy
FAA	Federal Aviation Administration
GAO	General Accounting Office
GSA	General Services Administration
HEW	Department of Health, Education and Welfare
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
SBA	Small Business Administration
SSA	Social Security Administration
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

- Three individuals are accused of stealing more than $10 million from the Small Business Administration and banks in New York and Colorado by getting loans and then defaulting on them.
- A Federal worker uses a Government computer to issue more than half a million dollars in fraudulent welfare checks and then programs the computer to erase all records of the bogus checks.
- A Federal transportation clerk embezzles $856,000 of funds earmarked for mass transit improvements.

News stories involving fraud against the Government are too common. Even though the Congress, the administration, and the public have recognized that more needs to be done to stop these evils, effective action has often been hampered by a lack of information about the problem.

In September 1978, we reported on fraud detection activities in seven Federal agencies. 1/ We concluded that agencies did not have the management information systems needed to deal with fraud and had not made fraud detection a high priority. As a follow-on to our September 1978 report, we have gathered and analyzed information on fraud in 21 Federal agencies. The major purpose of the review was to determine the extent and characteristics of identified fraud in Federal agencies and to provide a better basis for detection and prevention of fraud and illegal activities. This is the first volume of a three-volume report.

This volume discusses, in general terms, the results of our work on a Government-wide basis. Volume II will provide a more detailed discussion and statistical analysis of the data. Volume III will contain fraud profiles for each agency.

WHAT IS FRAUD?

There is no standard definition of fraud. During our review we found that the Department of Justice and each Federal agency had its own list of activities which it considered to be fraud. The term fraud has never been precisely defined because of the difficulty in establishing a definition that encompasses all the potential types of fraud.

1/"Federal Agencies Can, and Should, Do More to Combat Fraud in Government Programs," GGD-78-62, Sept. 19, 1978.

In order to collect comparable data consistently from each agency covered in our overview, we adopted the Department of Defense (DOD) definition of fraud and illegal activities, which is

> "* * * any willful or conscious wrongdoing that adversely affects the Government's interests. It includes, but is not limited to, acts of dishonesty which contribute to a loss or injury to the Government. The following are some examples of fraud or other unlawful activity: falsification of documents, such as time cards or purchase orders; charging personal expenses to Government contracts; diversion of Government property or funds for unauthorized uses; submission of false claims, such as invoices for services not performed or materials not delivered; intentional mischarging or misallocation of contract costs; deceit by suppression of the truth; regulatory or statutory violations, such as bribery, theft of Government property, graft, conflict of interest, and gratuities; and any attempt or conspiracy to engage in or use the above devices."

OBJECTIVES, SCOPE, AND METHODOLOGY

While our main objective was to determine the extent and characteristics of identified fraud in Federal agencies, we also wanted to evaluate selected cases to determine if internal control failures had allowed fraud to occur. At each of the 21 Federal departments and agencies covered in our review (see p. 9) we obtained lists of cases of suspected fraud or other illegal activities, hereafter referred to as frauds, opened from October 1, 1976, through March 31, 1979. The lists contained both closed and open cases.

Based on information from agency officials responsible for investigations, we initially identified a total universe of about 134,000 cases of alleged fraud. In the course of our review, we found that the agencies' lists had included about 27,000 cases which did not fit our definition of fraud or were outside the period of our review. For report discussion purposes we deleted (1) about 21,000 other cases where agencies investigated and found no fraud and (2) a little over 9,000 open cases where investigations were still underway or actions on the cases were pending. Therefore, unless otherwise indicated, the analysis in our report is based on a total of 77,211 cases which consists of 72,797 closed cases and 4,414 open cases where some administrative or legal action was taken, or no action was taken because no suspects could be identified. Thus, in places where we refer to "fraud cases" we mean those cases of actual fraud within the meaning of the above definition, as well as suspected fraud.

Using statistical sampling we selected about 5,000 cases for review. We developed a data collection instrument (app. I) to obtain comparable data on sample cases and used a computer to analyze the data. We based the sample size on characteristics of the universe in each agency and a need to achieve a 95-percent confidence level and an overall reliability factor of ± 12 percent. Since all cases reviewed were selected based on specific statistical criteria, our results can be projected to the universe of cases.

Our universe does not cover all fraud involving Federal funds--only cases investigated by Federal agencies. We did not include cases where State or local jurisdictions had primary investigatory responsibility. These include most Medicaid and Aid to Families with Dependent Children cases, as well as cases involving individual recipients of food stamps. Our universe of cases does include food stamp frauds involving grocery stores and illegal trafficking in food stamps because these types of cases are investigated by the Department of Agriculture. The vast majority of Medicare fraud cases is excluded from our universe. The only Medicare cases included are those that were investigated by the Health, Education and Welfare (HEW) 1/ Inspector General.

We did most of our work at the agency offices of inspector general. In those instances where agencies had no inspector general, we did the work at the comparable investigative units within the agencies. A major part of our work involved reviewing agency investigative files on sample fraud cases and recording the information in the files on our data collection instrument. In addition to collecting statistical data, we followed up on selected cases to determine what internal control deficiencies had allowed fraud to occur. In doing this we discussed the cases with agency program officials responsible for the areas where fraud occurred, and reviewed documentation on agency policies and program procedures at 21 agencies. We did our review at the headquarters of each agency as well as numerous agency field offices.

1/Since the period covered by our review, HEW has been reorganized. Its functions have been transferred to two new agencies--the Department of Education and the Department of Health and Human Services.

CHAPTER 2

FRAUD AND RELATED ILLEGAL ACTIVITIES ARE WIDESPREAD

Fraud and related illegal activities against the Federal Government are a widespread problem. Fraud has been detected in every agency in our review and in all types of activities within these agencies. Actual losses due to fraud and other illegal activities will never be known because most go undetected.

DIRECT DOLLAR LOSSES DUE TO FRAUD ARE SUBSTANTIAL

Based on statistical projections of the data compiled, we identified actual or estimated dollar losses in about 48,800 fraud cases. Using the available data we were able to project that known losses due to fraud in the 2-1/2 year period reviewed were between $150 and $220 million. As indicated earlier, this figure includes only those fraud cases investigated by Federal agencies. Our estimated dollar loss does not include cases where State or local jurisdictions had primary investigative responsibility. Some of those losses are substantial. For example, in 1977 we reported that the Federal Government was losing close to $600 million a year in the food stamp program because of overissued benefits. 1/ Complete and accurate nationwide data was not available on the percentage of these losses due to fraud, but at five food stamp projects we visited, available data showed that about half of the overissuances were classified as suspected fraud.

Agencies planned to recover only a small percentage of their losses

Overall planned recoveries were between 20 and 29 percent of total losses due to fraud. Courts ordered defendants to repay the Federal Government a total of nearly $14 million in about 1,500 cases. In about 13,000 cases, agencies planned to recover about $29 million through administrative actions, such as working out a repayment agreement with the culprit or taking it out of the culprit's retirement fund. However, the total planned recoveries of about $43 million were small compared to total losses of between $150 and $220 million.

Moreover, the fact that a court orders restitution does not necessarily mean the money is actually recovered. In one case we became aware of during our review, a General Services Administration (GSA) building management specialist took advantage of inadequate controls to establish a fictitious company which received

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1/"The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished," CED-77-112, July 18, 1977.

about $300,000 in payments for services never performed. In a criminal proceeding the defendant pleaded guilty to embezzlement. In a later civil proceeding in August 1978, the Federal Government was awarded almost $613,000 under the Federal False Claims Act. The amount awarded included double damages and penalties for false statements. At the time of this report, the Department of Justice had been unsuccessful in its attempts to obtain payment of the award.

In another case, an individual embezzled nearly $16,000 in Law Enforcement Assistance Administration grant funds. The individual was sentenced to 3 years probation, required to perform 200 hours of community service, and required to repay the stolen money. However, it is doubtful that full restitution will ever be made because, under terms agreed to by the Office of Probation of the Federal district court handling the case, the individual is repaying the Government at the rate of $20 a month. Thus, it will take her about 65 years to repay the $16,000.

Although we did not attempt to determine the amounts agencies recovered through administrative actions, we believe that actual recoveries are much lower than planned recoveries. For example, agencies often set up repayment schedules which are not adhered to by the culprit. All too typical is the case where a welfare recipient obtained excess payments of over $8,000 from Social Security's Supplemental Security Income program. The individual agreed to repay the agency $3,000 to avoid prosecution, but agency officials told us they actually recovered only $50.

We did not, as part of this study, evaluate the problems agencies face in recovering losses due to fraud. However, we plan to do another study which will address how agencies can increase the recovery of fraud losses.

Small dollar frauds may indicate big problems

While the public is usually aware of highly publicized cases with large dollar losses, smaller dollar frauds must not be written off as immaterial because they may be the first symptom of serious internal control problems.

An example of such a case is a payroll fraud committed by a clerk at the Military District of Washington Finance and Accounting Office which disburses $1.5 billion a year.

The employee used her official position to have 12 fraudulent payroll checks totaling about $17,000 issued to two accomplices. She was able to commit the fraud because there was no separation of duties and no matching of persons paid with persons employed. Clerks had complete control over entering names on the payroll, issuing time and attendance cards, and removing names from the payroll.

As a result of a subsequent review, three more employees confessed or were found guilty of defrauding the same office of over $16,000. Two others in the office were also arrested for suspected fraud involving $95,000.

In an audit following the fraud discovery, we found that at least $308,000 in overpayments and erroneous payments had been made by the Finance and Accounting Office in question. We also found that payroll office personnel had made over $531 million in unsupported adjustments to accounting records to make them agree with figures reported to the Treasury Department. 1/

MANY DIFFERENT TYPES OF INDIVIDUALS AND ORGANIZATIONS COMMIT FRAUD

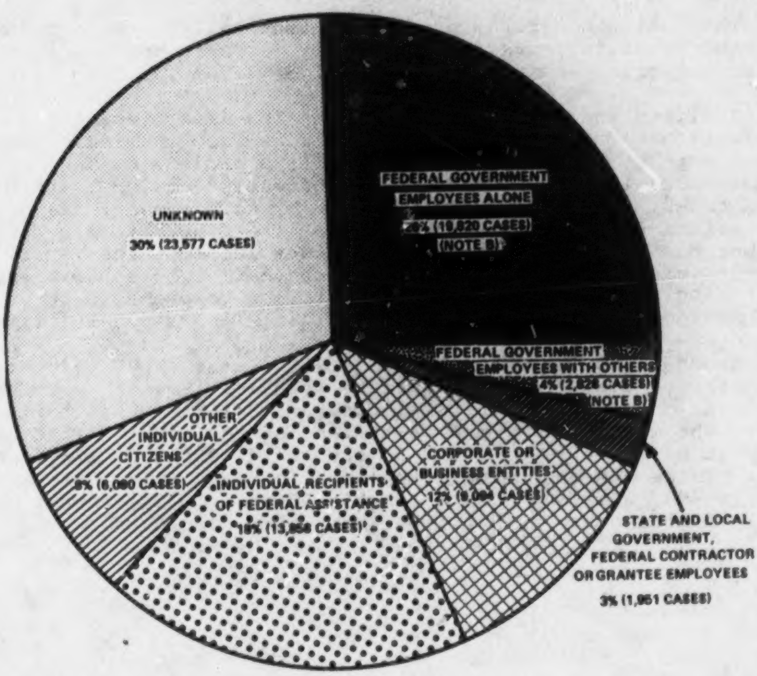
About 29 percent of the cases of fraud against the Government were committed by Federal employees. Consequently, the integrity of Federal employees is being closely scrutinized. The number of cases involving Federal employees is large. Even so, the Federal employees involved represent only about four-tenths of one percent of the Federal civilian and military personnel at the agencies covered by our review. In about one-quarter of the cases, individual citizens committed the fraud. Another 15 percent of the cases involved non-Federal organizations such as contractors, grantees, corporate recipients of financial assistance, and other business entities. In the remaining cases, the Federal agency was unable to identify the suspects.

Most of the cases where the Federal agencies were unable to identify the participants were theft cases. In some instances, noncompliance with established procedures or inadequate controls hampered agency attempts to identify suspects. For example, during a Department of Energy (DOE) audit 15 radios worth almost $8,000 were missing and were thought to have been stolen. An investigation could not identify any suspects because too many people had an opportunity to steal the items and two years had elapsed since the last inventory. Our review of controls revealed that keys to the storage area were accessible to many employees.

The chart on page 7 shows the participants in the fraud cases identified in the 21 agencies reviewed.

1/"Major Deficiencies in Army's Washington, D.C., Finance and Accounting Operations," FGMSD-80-53, June 5, 1980.

WHO COMMITTED FRAUD ?
(NOTE A)



a/Cases total 77,208 rather than 77,211 due to rounding and weighting of the data. Percentages on chart total 101 percent due to rounding.

b/Percentage of cases involving Federal employees totals 30 percent, rather than 29 percent, because of rounding.

FEDERAL AGENCIES HAVE BEEN SUSCEPTIBLE TO MANY TYPES OF FRAUD

As noted in our report "Federal Agencies Can, And Should, Do More To Combat Fraud In Government Programs" one of the prerequisites to controlling fraud is knowing where fraud has occurred and its extent. Our review was done, in part, to develop this information Government-wide.

Fraud occurred in all 21 departments and agencies included in our review. Agencies were susceptible to literally hundreds of different types of fraud in a wide range of functional areas.

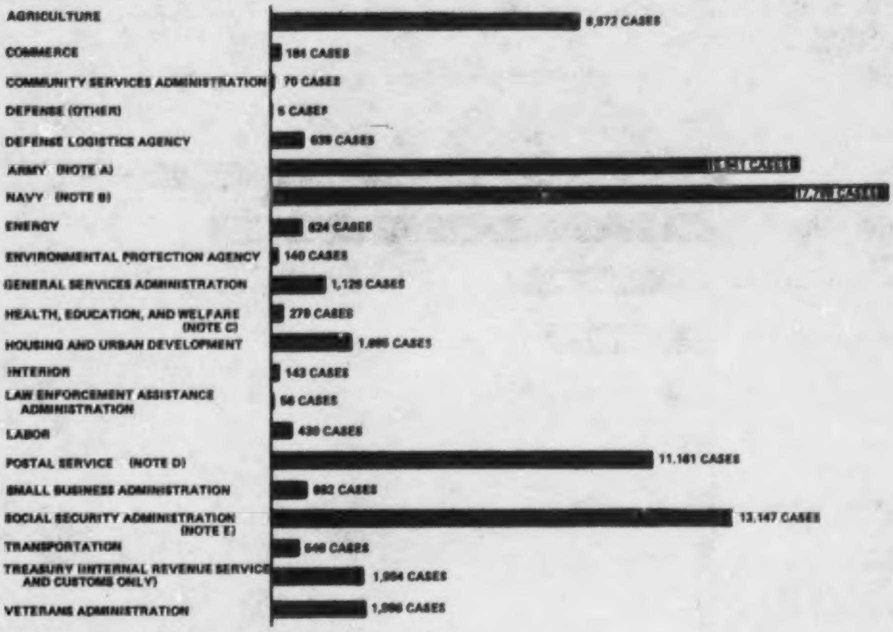
Statistical summary of cases by agency, functional area, and type of fraud

The following graphs present statistically developed numbers of fraud cases for each Federal agency we reviewed, and for the functional areas and types of fraud identified in these cases.

Analyses and conclusions based on the data presented must be carefully made. Several points should be kept in mind. We did not attempt to evaluate the investigative procedures used or the evidence developed, nor did we independently develop lists of fraud cases, or verify lists provided by each agency. As a result, conclusions that one agency has better fraud detection systems than another because it discovered more cases are not necessarily valid. It would also be incorrect to conclude that because one agency has identified more fraud than another it is more prone to fraud, less well managed, or otherwise not fulfilling its responsibilities.

As shown in the chart below, 66,620 cases or 86 percent of the detected fraud occurred in five agencies (Social Security Administration (SSA), U.S. Postal Service, Department of Agriculture, Department of the Army, and Department of the Navy). Theft was the most common type of fraud in the Postal Service, Army, and Navy. False statements were the most frequent fraudulent acts against SSA, and food stamp irregularities accounted for a majority of the cases in the Department of Agriculture.

FRAUD CASES BY AGENCY



a/Includes 307 Army-Air Force Exchange Service cases.

b/Includes the Department of the Navy and the Marine Corps.

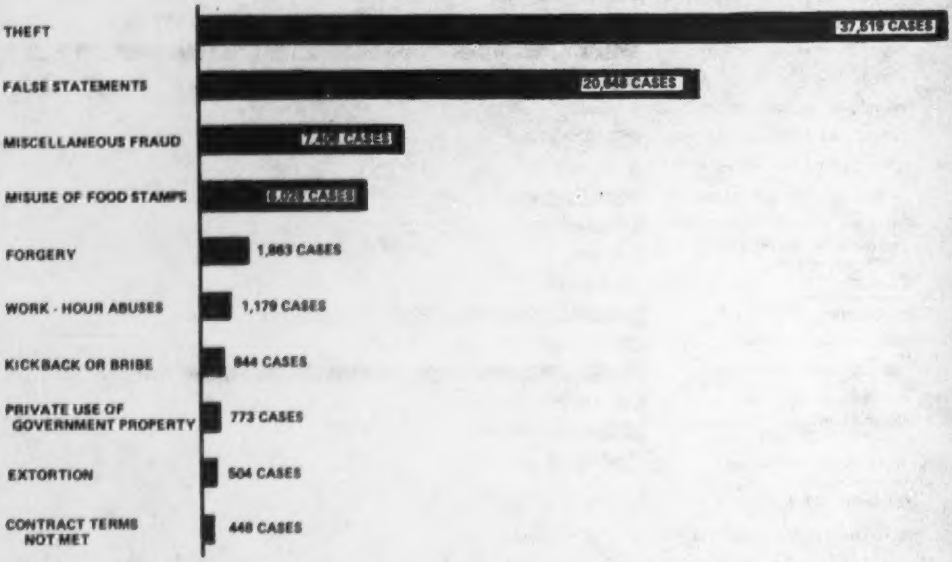
c/Since the period covered by our review, HEW has been reorganized. Its functions have been transferred to 2 new agencies--the Department of Education and the Department of Health and Human Services.

d/The cases in our Postal Service universe only represent a portion of the cases investigated by the Postal Service during the period of our review. Most of the cases we included in our universe were mail theft cases involving Postal employees or contractors. Other types of cases included such things as cash shortages at post offices, theft of supplies and equipment, fraudulent loss claims filed by Postal patrons, money order thefts, time and attendance abuses, and insufficient funds checks where there appeared to be intent to defraud the Service. We did not include cases involving the theft of mail once it was properly delivered to an address because there is usually no liability to the Postal Service in these cases. We also did not include burglaries and hold-ups. While we believe the cases we selected are the bulk of the cases that are of interest in this study they represent only a part of the cases investigated by Postal inspectors each year. For example, the vast majority of mail thefts occur after the mail is properly delivered, and over 90 percent of the persons arrested for the theft of mail in fiscal 1980 were non-Postal employees. According to Postal officials, the Service performed about 45,000 criminal investigations in fiscal 1980 which resulted in about 9,600 convictions for Postal offenses.

e/SSA was formerly part of HEW and is now part of the Department of Health and Human Services. For the purposes of our review, we treated SSA as a separate agency because it investigated and handled almost all the cases involving the Social Security Retirement and Supplemental Security Income programs.

About 93 percent of the cases involved theft, false statements, food stamp irregularities, and a wide variety of miscellaneous frauds. Destruction of Government property and insufficient funds checks were the most common types of miscellaneous fraud detected.

TYPES OF FRAUD COMMITTED AGAINST THE GOVERNMENT (NOTE A)

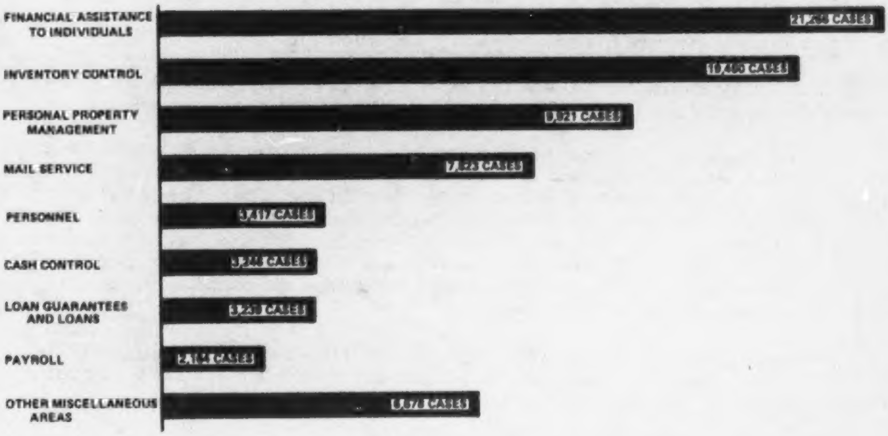


a/Cases total 77,212 rather than 77,211 due to rounding and weighting of the data.

As previously noted in the DOD definition (p. 2), theft is considered a type of fraud or illegal activity. It is viewed as a willful or conscious wrongdoing that adversely affects the Government's interests. As the above chart shows, theft accounted for almost half the cases identified by the agencies. In many theft cases we found that Federal agencies failed to adequately control and safeguard Government equipment and supplies. For example, at one DOE facility we evaluated 43 cases, most of which involved theft, and found internal control deficiencies to be a contributing factor in the majority. In one case, $327 worth of paper disappeared from a contractor's delivery drop point--an unsecured stairwell--at the facility. Although the amount of money involved was relatively small, officials said that they had a continual problem with items being stolen from this drop point. One contractor official said the contractor was lucky to get half of the items delivered to the stairwell. We found that the contractor did not require signed receipts for supply items and that these items were often left unsecured at delivery points making them highly susceptible to theft.

The next chart shows that 58,470 cases--about 76 percent of the total cases--occurred in four functional areas. The types of fraud most often associated with these functional areas were false statements and theft.

MAJOR FUNCTIONAL AREAS AFFECTED BY FRAUD (NOTE A)



a/Cases total 77,214 rather than 77,211 due to rounding and weighting of the data.

Examples of fraud cases in major functional areas

The cases presented in this section are typical types of fraud in the various functional areas. Dollar amounts identified do not, however, represent the normal or average loss. We included both large and small losses.

Financial assistance to individuals

Financial assistance to individuals is the most fraud-prone functional area identified. A typical case involved an individual who properly applied for and received mother and daughter survivors benefits after the death of her husband, a wage earner covered under Social Security. As part of the application, the individual agreed to notify the SSA when her daughter no longer qualified as a dependent. Under the program, the daughter would be ineligible if she married, and the payments received by the mother would be reduced accordingly.

The daughter married within 6 months after her mother filed for benefits. The mother did not notify SSA of the change in status and received over $4,300 in excess benefits. After pleading guilty to one count of fraud, she was sentenced to 6 months probation and ordered to repay the money to the agency.

Inventory control and property management

Inventory control cases involve the theft or misuse of Government property such as equipment, parts, vehicles, and supplies.

An example of a case affecting this function is one where a DOE research facility lost Government property costing about $130,000. Officials at the facility certified that the equipment was worthless and that it had been scrapped. However, a DOE inspector general investigator found no basis for the certification. About $68,000 worth of the equipment was later found and put back in the property inventory. The rest of the equipment was still missing at the time of our review.

Control over Government property at the facility was weak. At the time of our review, over $10 million in Government property at the facility had not been inventoried for 2-1/2 years.

Personal property management

The Department of Defense and other Federal agencies have general authority to reimburse their personnel for personal property stolen from, or damaged in, living quarters assigned by the Government up to a maximum of $15,000. The losses must be incident to the individual's service. A significant number of cases detected in the Departments of the Army and Navy involve the theft of personal property from military barracks.

The Department of the Army paid about $1.6 million in fiscal 1979 to claimants who had personal property stolen. Although statistics are not available for total claims paid by the Department of the Navy, we believe that the total, based on the number of cases detected, is probably substantial.

Mail service

The mail service cases we looked at consisted primarily of the theft of registered and insured mail. As indicated earlier (p. 9), we did not include the theft of mail after it was properly delivered because there is usually no liability to the Postal Service.

In one incident, Postal investigators suspected a clerk of stealing five mail pouches containing cash, coins, and jewelry. The individual was put under surveillance. He was subsequently tried, convicted, and sentenced to 3 years (with all but 3 months suspended) for thefts committed during the surveillance. The total loss to the Postal Service was about $112,000.

Personnel

The personnel cases involve the operations and activities of a department's personnel section such as improper hiring, firing, and promoting. False statements on employment applications are the most frequently encountered problem. For example, several DOD cases involved the fraudulent enlistment of illegal aliens into the Marine Corps. The aliens enlisted by presenting false birth certificates or other false proof of U.S. citizenship. In another typical case an Army recruiter, under pressure to fill his quota of enlistments, allegedly encouraged a recruit not to disclose his police record.

Cash control

The cash control functional area includes the use and control of Federal funds. Theft or embezzlement is the most frequent type of fraud in this area.

In one case a purchasing agent at a Veterans Administration (VA) medical center allegedly embezzled more than $60,000 from an imprest fund over a period of about 5 years. Imprest funds are cash on hand for the day-to-day miscellaneous financial needs of an agency. The agent allegedly covered the losses from the fund with fraudulent purchase orders for goods never delivered. Purchases made from the fund were supposed to be confirmed by certain other employees. However, the agent either got the individuals to verify that goods had been delivered without actually seeing them, or forged their signatures on receiving documents. The documentation he maintained to support purchases from the fund did not include vendor receipts as required by Federal Procurement Regulations. However, the lack of adequate documentation was not questioned during audits and management reviews of the fund over the 5-year period during which the fraud occurred.

The agent was finally caught because the medical center implemented a centralized accounting and management system. Shortly after the system was implemented, a pharmacist discovered that the pharmacy account was being charged for drugs never received, and reported the matter to the appropriate VA officials.

Loans and loan guarantees

Many Federal agencies administer programs which provide direct loans or loan guarantees to individuals and organizations who meet certain criteria. For example, the Small Business Administration (SBA) makes loans to small businesses. VA and the Department of Housing and Urban Development (HUD) guarantee home mortgage loans for qualified home buyers.

A typical case in this area is one where an individual borrowed $30,000 from SBA to buy a business. The borrower actually only paid $12,000 for the business. He allegedly used the rest of the money for purposes other than those allowed in his loan agreement.

Another example of problems in this area is the case of loan guarantees that were issued to nonveterans and ineligible veterans because of collusion between a real estate broker and a VA eligibility clerk. The eligibility clerk allegedly accepted numerous bribes from the real estate broker to issue phony certificates of eligibility for veterans benefits. These certificates were then used to obtain over 100 home loan guarantees for ineligible individuals. A VA investigation of one lending institution which provided loans to 47 individuals purchasing homes through the broker showed that over half the borrowers receiving VA guaranteed loans were not actually veterans.

Payroll

Payroll preparation, processing, distribution, and related activities are common areas of fraud, waste, and abuse. Working hour abuses and false statements on time and attendance documents are the most frequent problems.

In one case, a Government employee assigned to a Social Security Administration branch office was responsible for maintaining time and leave records and sending the information to HEW's central payroll office. The individual added fraudulent overtime hours to her own payroll data before sending it. This same individual also distributed the payroll checks. The fraud was only detected because the timekeeper was absent on a day when the payroll checks were received for distribution. Her supervisor distributed the checks and noticed the timekeeper was receiving excess pay. The individual received $3,200 in fraudulent overpayments before being caught.

Miscellaneous areas

A large number of cases fell into a wide range of other functional areas. For example, about 2 percent were in law enforcement and in travel. About 1 percent were in procurement and disposal of surplus property. All the rest of the functional areas affected represented less than 1 percent of the total cases.

THE NONMONETARY EFFECTS OF FRAUD ARE SUBSTANTIAL

The cost of fraud and other illegal activities cannot always be measured in dollars. Nonmonetary effects must also be considered in evaluating the seriousness of incidents of fraud against the Government.

Possibly the most serious nonmonetary effect is the loss of confidence in the Government's ability to efficiently and effectively manage its programs. This occurs when members of the public believe that individuals can commit illegal acts without fear of prompt, or possibly any, Federal action. Such perceptions, whether valid or not, can result in the view that such activities are the norm.

In over 14,000 cases where no money was lost, individuals did not receive the benefits intended or they received benefits for which they were not eligible. An example is the case where a grocery store accepts food stamps for ineligible items such as beer, wine, and cigarettes. In other cases, veterans sometimes act as "straw buyers" and obtain VA guaranteed home loans for nonveterans. Under this scheme, a veteran purchases a house using his or her VA benefits and then turns the property over to the real buyer. In many of these cases it is difficult to pinpoint a direct dollar loss, but individuals or organizations are clearly receiving benefits to which they are not entitled. Violations such as these threaten program integrity and could lead to the eventual cancellation of the programs involved and loss of benefits for the program participants who obey the rules.

Fraud also has other serious effects which more directly affect people's lives. In about 630 cases the fraud had a potentially harmful effect on public health and safety. A good example is the case where the superintendent of a municipal wastewater treatment plant and at least three other people were involved in a scheme to falsify discharge reports required by Federal law. The individuals intentionally dumped raw sewage into a river and then falsified reports to the Environmental Protection Agency (EPA) on the amount of sewage released.

CHAPTER 3

CONTROL WEAKNESSES ALLOW FRAUD AND OTHER ILLEGAL ACTIVITIES TO OCCUR

The Federal Government spends more than $500 billion and provides a multitude of services annually. Every Federal manager has an obligation to see to it that his or her program's assets are safeguarded against improper use. Strong systems of internal controls designed into each Federal program or operation are the primary mechanism managers have to protect public funds. Internal controls are the first line of defense against fraud. In addition to reducing the amount of fraud, internal controls also aid in earlier detection of questionable activities when they do occur. However, internal controls alone are not enough to prevent fraud. Management has to establish an environment where controls are understood, encouraged, and enforced if the controls are to be effective.

During our review we found many instances where controls were either inadequate, not followed, or nonexistent. In many cases, we believe this was due to a lack of management concern about adequate controls.

STRONG SYSTEMS OF CONTROLS ARE NEEDED TO PROTECT PROGRAMS FROM FRAUD

Strong internal control systems help ensure that specific transactions are carried out correctly. Quite simply, internal controls are checks and balances over all activities of an organization (both fiscal and managerial). Examples of internal controls are separation of duties so that one individual does not completely control a financial transaction; physical security measures that protect Government property, funds, and records; and verification and reconciliation procedures built into an activity to assure that transactions are handled properly.

A recent GAO report concluded that, because of inadequate internal controls, most Federal agencies operate systems that are vulnerable to fraud, physical losses, and waste. [1] The report summarized conditions noted in a series of GAO reports issued between December 1976 and October 1979 and covered financial and accounting operations at 157 fiscal offices in 11 Federal agencies. We reported on numerous internal control weaknesses that made Government operations vulnerable to fraud and other illegal activities. For example:

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[1] "Continuing and Widespread Weaknesses in Internal Controls Result in Losses Through Fraud, Waste, and Abuse," FGMSD-80-65, Aug. 28, 1980.

- --Money collected at many fiscal offices was subject to loss or misuse because of inadequate controls over recording, depositing, and safeguarding funds, and failure to segregate duties. One office lost $12,000 because it allowed funds to accumulate for several weeks, and in some cases months, before depositing them. This was against Treasury Department requirements which state that agencies should deposit large collections daily and smaller collections at least weekly.

- --Expenditures at many offices were subject to diversion and misuse because of inadequate checks on the propriety, accuracy, and legality of payments. At one location a financial clerk was able to embezzle over $856,000 because the office did not adequately audit vouchers before payments were made.

- --Government Transportation Requests in many locations were susceptible to conversion for personal use because of inadequate safeguards and controls. These documents are issued to Federal employees to be used in place of cash or checks to pay for travel on official business. An employee at one location converted Government Transportation Requests amounting to more than $30,000 over a 2-year period. He was able to do so because he had total control over acquiring, maintaining, issuing, and accounting for the easily convertible documents. This illegal activity was discovered only when other improper activities by this employee were investigated.

- --Imprest funds were often exposed to the risk of loss, theft, or misuse because not all agencies were adequately controlling, safeguarding, or managing millions of dollars in such funds. One fiscal office that was not following GAO and Treasury requirements that funds be adequately safeguarded lost about $209,000. The office kept its imprest funds in an unlocked cashbox stored in a safe which was accessible to several people other than the cashier.

CONTROLS WERE INADEQUATE, NOT FOLLOWED, OR NONEXISTENT

During our review we found many instances where controls were either inadequate, not followed, or nonexistent. While internal controls cannot put an end to all fraud, we believe many frauds might have been prevented if good control systems had been in place. The following cases illustrate these problems.

Inadequate controls--embezzlement of funds

The alleged embezzlement of almost $2 million over a 3-year period from the Department of Defense's Civilian Health and Medical Program of the Uniformed Services shows what can happen without good controls. The program pays non-Government hospitals and doctors for the medical care of eligible military personnel and their dependents. Because of poor controls, a civilian program administrator in Korea was allegedly able to embezzle funds by preparing and certifying over 3,300 phony medical claims.

The major inadequate control was a lack of separation of duties. One person was responsible for processing and approving all claims received under this program in Korea. Because of this broad responsibility, the administrator was allegedly able to falsify claim forms and later certify the fraudulent claims for payment.

According to DOD investigative files, the administrator instructed hospitals to submit claim forms with the address, cost, and sometimes the authorized provider's signature spaces left blank. He filled in the blanks with inflated amounts and mailing addresses which he controlled. In his role as sole certifying officer, he then prepared another standard form certifying the correctness of the claim, and forwarded both forms to an Army finance and accounting office. The finance and accounting office would mail a Government check made out to the hospital to the address shown on the form. The files indicated that once the checks were delivered to his mailboxes, the administrator allegedly forged the hospital endorsement, cashed the checks, paid the hospitals the actual costs, and kept the difference.

Besides poor internal controls, management supervision was weak. While the administrator was supposed to receive general supervision from the Army Comptroller, we were told that no one ever questioned his activities. Further, we found there had never been an on-site audit to determine if the administrator was following proper procedures.

The alleged fraud was detected by a Defense Audit Service DOD-wide survey of the validity of claims filed under the Civilian Health and Medical Program of the Uniform Services. During the survey, the audit service questioned a claim totaling $1,424 from a Korean hospital. A follow-on investigation by the Army's Criminal Investigation Command found that the claim should have been for $294. After investigators started asking more questions about claims in Korea, the administrator resigned and left the country. A Federal grand jury indicted the administrator on November 7, 1979, but by that time the individual had disappeared. The suspect has since been captured and is awaiting trial. Only about $200,000 has been recovered.

Controls were not followed-- FAA inventory theft case

Government equipment worth $3,390 was apparently stolen from two Guam Federal Aviation Administration (FAA) facilities sometime between February and July 1978. When the theft occurred, formal control procedures for building security and inventories included (1) locks on all facilities and (2) property custodians responsible for protecting and safeguarding assets. Although both facilities were equipped with locks, the locks at one site were damaged and did not work, and FAA officials left the doors open at the other site. As a result, unauthorized people could enter the facilities and steal equipment without being detected.

Physical control and accountability for inventories was also poor. FAA officials did not adequately safeguard equipment shipped or received. For example, equipment returned for repair was left unsecured in an administrative office. The office was accessible to many people.

Inventory control problems were not new at these locations. In an evaluation performed in March 1977, an FAA official reported that inventory accuracy could not be determined because property records had been improperly maintained since 1975. Also, he could not determine if property receipts and transfers were properly documented.

Our review revealed that weaknesses at the time of the theft still continue. Because of poor control procedures FAA is still unable to account for significant inventory amounts at the facilities where the thefts occurred. We determined that it was unable to account for at least 40 percent of the equipment on its inventory records at these locations.

Controls did not exist--DOD procurement case

One of our sample cases involved crude oil deliveries to a Navy facility under a Defense Logistics Agency (DLA) contract. DLA purchases billions of dollars of fuel a year for DOD and certain civilian agencies. Former contractor employees alleged that a private company was shorting the Government on shipments to a Navy facility. The Naval Investigative Service and the Federal Bureau of Investigation investigated but could not determine the dollar loss or identify any suspects because contractor shipments were not adequately measured.

The company made the shipments under a standard contract negotiated by DLA's Defense Fuel Supply Center. Contract specifications did not spell out controls to assure that the amount of fuel the Government paid for was received. The contract merely stated that quantities must be verified by receiving shore tank measurements. We found that controls in this instance were virtually nonexistent. Navy personnel did not measure the tank either before or after the receipt of fuel. Using a dipstick, Navy personnel did check the contents of the tank every 24 hours. However, the storage tank at this facility has a 2-million-gallon capacity and an inaccuracy of as little as one-quarter inch in the dipstick measurement would result in a variance in oil quantities on hand of between 7,000 and 15,000 gallons.

GOOD CONTROLS MEAN QUICKER DETECTION OF FRAUD

Good systems of internal control will usually prevent fraud. If fraud occurs, the systems will normally enable early detection. However, as indicated earlier, we found agency control systems were inadequate in many cases. This is evidenced by the fact that (1) much of the fraud was found by sources other than internal controls and (2) a significant number of frauds were detected long after they were committed.

Fraud was often detected by means other than controls

Federal employees detected about 34 percent of the fraud cases during the normal course of their day-to-day activities. In most cases employees discovered fraud by chance. An example is the case of a college professor who certified that he had provided individual tutoring to veterans when he actually had not. In some instances the professor and the veterans split the payments, while in others the professor forged the veterans' signatures and kept the entire amount.

One night two VA employees responsible for processing educational benefits claims were riding home together on the bus. One mentioned that he was receiving a lot of benefits claims from students tutored by the professor. The other VA employee responded that he had also processed a lot of claims for the same man's services. A subsequent investigation based on the large number of claims disclosed the fraud.

In another case a Federal supervisor was driving down a highway when he saw one of his employees in another car. The employee was supposed to be on a business trip over 200 miles away. The employee later submitted a false travel voucher claiming expenses for the business trip. An investigation showed that the employee had been making false travel claims for almost 3 years.

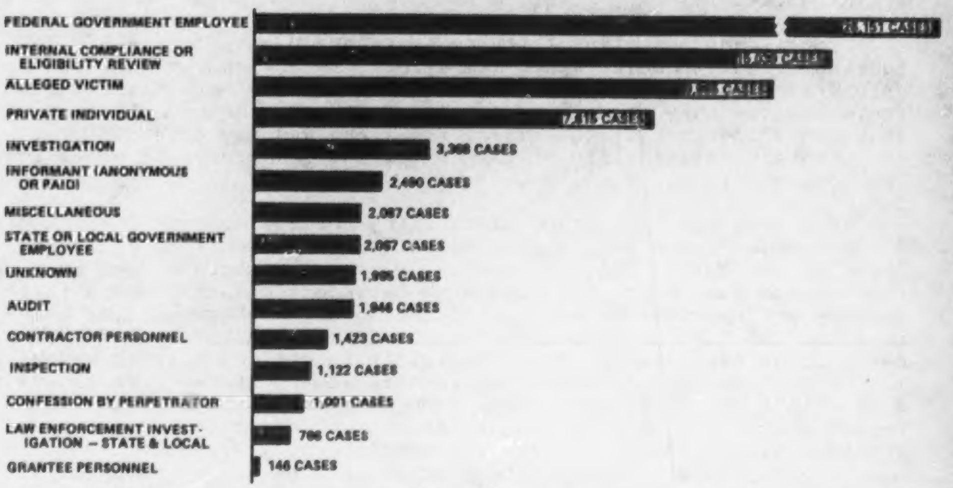
About 20 percent of the cases not spotted by controls were detected by compliance or eligibility reviews. Certain agencies do these reviews periodically to make sure program participants are eligible for benefits and are complying with program regulations. About 90 percent of the cases detected by such reviews involved Federal financial assistance to individuals. An example is the educational compliance surveys done by VA. As part of the surveys, VA employees spot check records at educational and training institutions to make sure persons receiving veterans education benefits are eligible. VA does an annual compliance survey of each institution of higher education where 300 or more students receive VA benefits. Its employees also do annual compliance surveys at vocational training schools. If a spot check of enrollment records reveals a large number of discrepancies, a more extensive review is done. Between July 1, 1977, and March 30, 1979, VA did over 28,000 compliance surveys. Compliance investigators found discrepancies at close to 15,000 educational and training facilities.

Compliance and eligibility reviews have been effective in detecting fraud. However, they are after-the-fact checks that can only detect fraud once it has occurred. They are not internal controls because they cannot prevent fraud from happening. In fact, in about 37 percent of the cases, the fraud was not detected by compliance or eligibility reviews until one or more years after it was committed.

Even so, compliance and eligibility reviews are important tools for detecting fraud in programs where it is difficult to establish internal controls. This is especially true in programs such as food stamps and Aid to Families With Dependent Children where third parties are responsible for administering the disbursement of benefits and the Federal Government has no direct control over day-to-day program activities. For example, it is not possible to establish cost effective controls to prevent grocery stores from redeeming food stamps for ineligible items such as beer and cigarettes. The Department of Agriculture uses a computer to generate quarterly reports which identify stores with statistically excessive food stamp redemptions. Agriculture's compliance personnel then visit those stores to determine if the food stamp redemptions are reasonable. If the Department determines that a store's redemptions are unreasonable, undercover investigators visit the store and attempt to catch the owners or employees in an illegal act--either purchasing food stamps at a discount or selling ineligible items.

The rest of the fraud cases were detected through a wide variety of means.

HOW FRAUD WAS DETECTED (NOTE A)



a/Cases total 77,201 rather than 77,211 due to rounding and weighting of the data.

Much fraud went undetected for a long time

Where the information was available, we found that almost a quarter of the fraud in the 21 agencies went undetected for 6 months or more after it first occurred. In 17 percent of the cases, the fraud went undetected for over a year. Moreover, the cases which took longer to discover accounted for a proportionately larger percentage of dollar losses. Half the cases involving losses over $10,000 took over a year to detect, but only about a quarter of the cases under $10,000 took more than a year to detect. Adequate controls would have prevented many of these frauds. In a quarter of the cases, the fraudulent acts were committed more than once. In some of these cases where controls did not prevent fraud, they might have at least led to its earlier detection.

An example of inadequate internal controls allowing fraudulent activity to continue undetected for an extended period involves a Customs mail specialist who was responsible for inspecting packages mailed into the United States from foreign countries. The mail specialist stole jewelry and other valuable items at the rate of $1,000 a day for at least 3-1/2 years.

Total losses in this case were estimated between $500,000 and $1,000,000 of which goods valued at $450,000 were recovered. After arrest, the mail specialist's description of how the items were stolen clearly showed the lack of adequate supervision and internal controls:

--He placed mailing labels for a business owned by his wife over the correct address.

--He carried out small registered packages of jewelry in his apron pocket, his jacket, or lunch box.

--After stealing the contents of a package, he cut up the wrappings and placed the pieces in other packages that were sent out.

--When he stole the contents of a wooden box, he rewrapped the box and labeled it with a false address and false return address. Thus the empty box could not be delivered or returned to the sender.

Since the thefts, Customs has implemented controls to make it more difficult to steal from packages being inspected by its mail specialists. Among other things, Customs procedures now require greater separation of duties.

GREATER MANAGEMENT SUPPORT OF CONTROLS IS NEEDED

In 1978, we reported that a major cause of fraud was the lack of interest by Federal agencies in protecting their programs from fraud. In this review, we found a much higher awareness of the need to protect programs from fraud but this awareness was often not acted upon. Program management is frequently unconcerned with enforcing the controls needed to prevent fraud. Managers are rated on such things as how much money they spend, how many program participants they sign up, and how many claims they process. These concerns often override concern over whether the money is actually spent properly, and, as a result, controls are often neglected.

In many of the cases we looked at, control procedures had been established but had not been implemented. For example, in the previously mentioned case of the $17,000 payroll fraud at the Military District of Washington Finance and Accounting Office (see pp. 5-6) separation of payroll duties was required by the Standard Army Civilian Payroll System. This requirement for separation of duties, however, had not been implemented by management. At the time the fraud occurred, managers at the Military District and the Department of the Army had been aware of deficiencies in the payroll operations at the Finance and Accounting Office for several years.

We believe top Federal managers need to be more concerned with ensuring that effective internal controls are operating. Top managers must insist that middle managers make sure that all operations for which they are responsible contain controls to minimize fraud, waste, and abuse and to ensure effective performance of tasks. When middle managers and employees sense the concern for strong controls they will be more likely to make sure that effective controls are followed.

Proposed legislation could strengthen accountability for controls

Recognizing the need for strong internal controls over Government operations, the Congress enacted the Budget and Accounting Procedures Act of 1950. The act, among other things, placed the responsibility for establishing and maintaining adequate systems of accounting and internal controls upon the head of each executive agency. More recently, the Congress passed legislation establishing inspectors general in many executive departments and agencies. The Congress is currently considering legislation which would require greater accountability by heads of Federal agencies for the effectiveness of their organizations' systems of internal financial control. The Federal Managers Accountability Act of 1981 (H.R. 1526) would encourage agency heads to establish and maintain effective internal control systems.

The proposed legislation would place greater accountability on Federal managers for their organizations' financial affairs by requiring agency heads to undertake annual evaluations of the adequacy of their organizations' internal control systems. Such evaluations are essential to identifying areas needing remedial action. The legislation would also require agency heads to report the results of such evaluations to the Congress and the President. Agency heads would be required to identify material weaknesses in controls and describe in detail their plans and schedules for remedying those weaknesses.

The requirement for the annual evaluations and reports recognizes the dynamic nature of the internal control environment. Federal agencies are inherently subject to a number of changing conditions which, over time, affect the effectiveness of the agencies' control systems. These conditions include such things as normal personnel turnover, changes in agencies' missions and responsibilities, agency reorganizations, and technological and data processing advances. Regular evaluations are essential to assess the impact of changing environments on internal control systems. If the proposed legislation is enacted, GAO would participate in the evaluation and reporting process by providing guidance for conducting the examinations and by reviewing the results.

THE CONCEPTS OF CONTROL ARE SOUND BUT IMPLEMENTATION IS OFTEN POOR

Another aspect of our review was an attempt to determine whether existing systems of internal control were effective deterrents to fraud and illegal acts or whether new systems need to be devised to provide better protection. Our review dealt only with discovered cases of fraud and related illegal acts; consequently, we could not consider frauds and illegal acts that had not been detected. However, many cases were not discovered through internal control procedures. Accordingly, we believe useful conclusions can be drawn from a study of these cases.

Our analysis of these cases, reinforced by our other reviews of internal controls in Federal agencies, leads us to the conclusion that the concepts of internal control currently followed in the Federal Government are reasonably effective. At the same time, we believe that effective use of such controls generally is not high. The reason is that while conceptually the internal controls are generally sound, the concepts frequently are not followed. 1/

As noted earlier, management is often lax in enforcing existing controls. Furthermore, controls designed into accounting systems are often dropped during the implementation of the system or are eliminated while the system is being operated. There are many reasons for this. Some are:

--In computer systems, controls often are eliminated to gain computer memory necessary for other purposes.

--Changes of employees occur and new employees are not thoroughly instructed.

--Controls are eliminated to improve operating efficiency of computer systems without consideration of the loss of control that results.

--Reduction in employees results in doubling up on jobs that originally were assigned to different people for control purposes.

Based on the preceding, we believe the Federal Government's problem is finding ways to get its internal control systems operating effectively rather than devising new controls.

1/An exception to this statement would be the current practice of having certifying officers approve the payment of Government funds. The certifying officers are responsible for assuring that the payments are proper and legal. Both we and the Joint Financial Management Improvement Program have reported that the method used by the Federal Government of having certifying officers attest to the validity and legality of proposed payments has not worked well since the computer became the Government's primary tool for processing payments. We do believe that the certifying officer has a role, but the internal controls of the computer payment systems need to be reviewed periodically. Otherwise the certifying officer does not have sufficient assurance to make meaningful certifications regarding the accuracy and legality of payments.

AUDITORS NEED TO BE MORE ALERT TO FRAUD

Management has the overall responsibility for ensuring that effective controls are in place and are operating. The auditor, on the other hand, performs the very important functions of testing the systems of internal controls in place and making recommendations to management to strengthen those controls. The auditor also serves a deterrent function in that a person is less likely to commit a fraud if he or she knows that the fraud may be detected in an audit.

Despite the auditor's important role as a deterrent, only about 3 percent of the cases in our universe were detected by audit. A little over 20 percent of the frauds detected by audit involved the handling of cash. The typical example would be where auditors counted the cash on hand and discovered the cashier had embezzled some of the money.

The role of the independent auditor in detecting fraud is stated by the American Institute of Certified Public Accountants in section 327.05 of the "Codification of Statements on Auditing Standards" issued in 1980. This section states:

> "The independent auditor's objective in making an examination of financial statements in accordance with generally accepted auditing standards is to form an opinion on whether the financial statements present fairly financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles consistently applied. Consequently, under generally accepted auditing standards the independent auditor has the responsibility, within the inherent limitations of the auditing process, to plan his examination to search for errors or irregularities that would have a material effect on the financial statements, and to exercise due skill and care in the conduct of that examination. The auditor's search for material errors or irregularities ordinarily is accomplished by the performance of those auditing procedures that in his judgment are appropriate in the circumstances to form an opinion on the financial statements; extended auditing procedures are required if the auditor's examination indicates that material errors or irregularities may exist. An independent auditor's standard report implicitly indicates his belief that the financial statements taken as a whole are not materially misstated as a result of errors or irregularities."

An example of where auditors were not alert to the potential for fraud is the case of a Head Start grantee who was funded by HEW and the Community Services Administration. The former executive director and other employees of the grantee were accused of numerous fiscal irregularities including receiving unauthorized payments. Although the significant weaknesses in this grantee's fiscal procedures had existed for years, the certified public accounting firm auditing the grantee always certified that the grantee's accounting and financial system was satisfactory and met HEW guidelines. Further, the auditors did not report control weaknesses even though the executive director maintained almost total control over fiscal matters with virtually no checks and balances.

We recognize the fact that auditors cannot be insurers against fraud. Because of his or her internal control review responsibilities, however, fraud prevention must be considered one of an auditor's most important roles. The auditors' recommendations for control system improvements are often relied on by management, and form the basis for the development and implementation of improved procedures and control systems. In spite of the significance of the prevention role, we believe auditors should devote more effort to detecting fraud. As part of our responsibility for prescribing audit standards for the Federal Government, we recently established standards to make more specific the auditor's role in the detection of fraud and abuse in Government programs and operations. The new standard requires auditors to be alert to situations or transactions that could indicate fraud, abuse, and improper or illegal expenditures.

> "Auditors shall: (1) be alert to situations or transactions that could be indicative of fraud, abuse, and illegal acts and (2) if such evidence exists extend audit steps and procedures to identify the effect on operations and programs."

We have also established a standard that auditors should promptly notify the top official of an organization being audited when they become aware of fraud, abuse, or illegal acts or indications of such acts. 1/

1/"Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," U.S. General Accounting Office, 1981 Revision, Feb. 27, 1981.

CHAPTER 4

EFFECTIVE PUNITIVE ACTIONS ARE NOT ALWAYS TAKEN AGAINST THOSE WHO COMMIT FRAUD

It is highly likely that many who commit fraud go unpunished. There are three reasons for this:

--Criminal prosecutions by the Department of Justice are not always possible or desirable.

--Justice may not fully pursue civil remedies against those who commit fraud.

--Federal agency officials do not always take effective administrative actions to punish offenders.

The statistics contained in this chapter are based on 72,797 closed cases where there was some evidence that fraud had occurred and the action taken was the total and final action.

MANY CRIMINAL CASES ARE NOT PROSECUTED

Every year about 200,000 cases of all types of Federal crime including fraud are referred to the Department of Justice for prosecution. With only about 1,600 prosecutors, fewer than those employed in either the State of New York or the State of California, the Department cannot possibly prosecute all the cases referred. Even if the Department could handle all the cases referred, the already overloaded court system would be swamped. Also, more prosecutions would provide an additional burden on the Federal prisons and correctional institutions. Given its limited resources, Justice usually attempts to concentrate on cases which it perceives to have maximum impact and deterrent value. According to our projections, the Department of Justice declined to prosecute about 7,800 cases, or 61 percent, of the nearly 12,900 fraud cases agencies referred for prosecution over the 2-1/2 year period covered by our review.

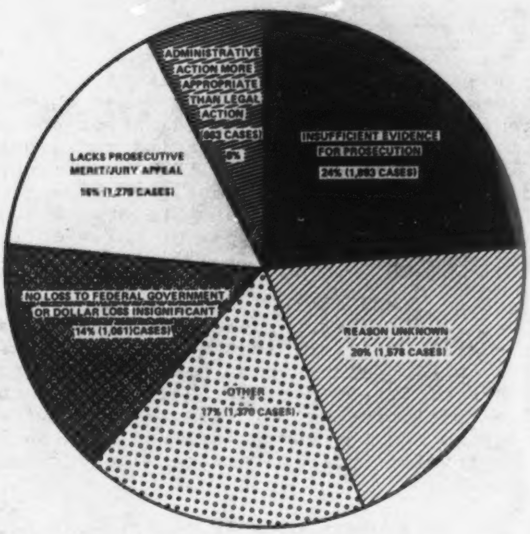
Reasons given by Justice for declining cases

As shown below the reasons most frequently given by Justice for declining cases were related to the adequacy of evidence, the case's prosecutive merit or jury appeal, and the financial loss resulting from the alleged fraud.

WHY THE JUSTICE DEPARTMENT HAS DECLINED TO PROSECUTE CASES

(7,843 CASES)

(NOTE A)



a/Percentage of cases totals 99 percent due to rounding.

Almost a quarter of the cases were rejected for lack of sufficient evidence. We did not attempt to evaluate the adequacy of the investigations of these cases, or the reasonableness of the declination justification.

About 16 percent of the cases were rejected because they lacked prosecutive merit or jury appeal. "Prosecutive merit" and "jury appeal" have no precise definitions. In these cases U.S. attorneys concluded that, for overriding reasons, prosecution should not be initiated.

U.S. attorneys or Department of Justice headquarters declined to prosecute about 14 percent of the cases because they considered the dollar loss insignificant or there was no loss to the Government. Also, the amount of financial loss to the Government was often a consideration in declining other cases even when it was not the primary reason.

U.S. attorneys and Justice headquarters declined about 8 percent of the cases because they thought agency administrative punitive actions would be more appropriate than legal action. Agencies eventually took administrative action in over 94 percent of the cases declined for this reason. (See pp. 34-38 for a discussion of the administrative actions taken.)

JUSTICE HAS ESTABLISHED PRIORITIES FOR PROSECUTING WHITE COLLAR CRIME

In August 1980, the Department published national white collar crime law enforcement priorities. Among other things, the priorities are intended to improve the coordination and allocation of limited Federal resources for investigating and prosecuting white collar crime, including fraud against the Government, and to make Federal law enforcement more consistent. Justice intends that the national priorities should be viewed by Federal investigators and prosecutors as indicators of the types of white collar crime that deserve special emphasis.

With respect to fraud against the Government, the new Justice Department priorities emphasize prosecuting fraud cases involving corruption of Federal officials and those fraud cases involving private citizens, acting alone or as part of an organization, which resulted in losses of $25,000 or more. It appears that at least a quarter of the total prosecuted cases in our review might not have been prosecuted had the new guidelines been in effect. These were cases which involved private citizens, and resulted in losses of less than $25,000.

In commenting on a draft of this report, the Department of Justice pointed out that the white collar crime priorities are not intended to be guidelines for declining cases. According to the Department, it has emphasized to Federal prosecutors and Federal investigators that the white collar crime priorities describe the types and magnitude of cases that should receive special attention, that priority cases may be few in number, and that cases which may not fall strictly within the priority specifications may nevertheless be very important. In addition, the Department is having each U.S. attorney develop additional priorities to meet the specific needs of his or her own district. According to Justice, as U.S. attorneys define their respective districts' white collar crime priorities, they may, with the Department's approval, deviate somewhat from the national priorities. Therefore, the Department of Justice believes it is not possible to precisely predict the effect of the national and district priorities on the types of cases accepted or declined for prosecution. However, the Department does agree that the priorities will probably mean it will prosecute fewer small dollar fraud cases. We believe, and Justice agrees, that this makes it even more important for agencies to take effective administrative actions against those who defraud agency programs.

JUSTICE IS VERY SUCCESSFUL IN PROSECUTING CASES

In our sample, Justice got a conviction or guilty plea in 95 percent of the over 4,300 criminal cases it decided to prosecute. In addition, Justice handled about 680 cases through pretrial diversion. Pretrial diversion is a voluntary program which removes suspects from the criminal justice process before trial and places them in a program of supervision, generally by the Federal Probation Service, for a specified period. Successful participants have the charges against them dismissed. We did not obtain information on the number of individuals who successfully completed pretrial diversion.

The Government relies on specific criminal fraud statutes which are suited to a particular fraud, and three general criminal fraud statutes. The three general fraud statutes are the conspiracy to defraud statute (18 U.S.C. 371), the false claims statute (18 U.S.C. 287), and the false statement statute (18 U.S.C. 1001). Fines and sentences vary, but generally the maximum is a $10,000 fine and a jail term of not more than 5 years. Although most cases are prosecuted under these general statutes, we did not collect data on the statutes under which each case in our sample was prosecuted.

In over 90 percent of the 4,100 cases the Justice Department successfully prosecuted, the courts handed down prison sentences. Some cases involved more than one defendant, and a total of about 4,200 persons were sentenced to prison. The courts often suspended large portions of the sentences or granted probation. About a third of those sentenced actually spent time in prison. The following table shows the time individuals were sentenced to serve in prison. Information on how much time the individuals actually spent in prison before parole was not readily available.

Length of sentences (note a)	Number of individuals (note b)	Percentage of total cases
6 months or less	485	57
7 months to 1 year	39	5
13 months to 2 years	74	9
25 months to 3 years	129	15
More than 3 years (note c)	122	14
Total	849	100

a/Excludes portions of sentences suspended or to be served on probation.

b/Data on the length of sentences was only available on 849 of the 1,337 cases where individuals were sentenced to prison.

c/The longest sentence was 13 years.

In about 1,200 cases the courts fined defendants as shown below.

Amount of fines	Number of cases (note a)	Percentage of total cases
$1,000 or less	631	65
$1,001 to $5,000	198	20
More than $5,000 (note b)	139	14
Total	968	99 (note c)

a/Data on the amount of fine was only available in 968 of the 1,158 cases in which courts levied fines.

b/The largest fine was $200,000.

c/Does not total 100 percent due to rounding.

JUSTICE MAY NOT FULLY PURSUE CIVIL REMEDIES

In some instances, civil remedies may be a greater deterrent than criminal prosecutions because civil remedies may be more commensurate with the damage caused by the fraud. Civil remedies are available both in statute and in common law. The principal civil fraud statute is the False Claims Act. The False Claims Act empowers the United States to recover double damages from those who knowingly make false claims for money or property upon the United States, or who submit false information in support of claims. In addition, the United States may recover one $2,000 forfeiture for each false claim submitted or for each false document submitted in support of a claim. The Department of Justice has proposed changes to the False Claims Act to make it easier to prosecute cases under the act and to provide for stiffer penalties.

In 1979 we completed a study of the Department of Justice's handling of fraud cases with emphasis on the civil aspects of program fraud. 1/ We did the review at nine judicial districts and Justice Department's Civil Division. We found that the Department had not emphasized the civil aspects of fraud cases. Our current study provides additional support for this conclusion. During our 2-1/2 year review period the Department of Justice only filed 28 civil actions out of a total of 393 fraud cases in our universe referred by agencies for civil legal action.

1/"Department of Justice Should Coordinate Criminal and Civil Remedies to Effectively Pursue Fraud in Federal Programs," GGD-80-7, Oct. 25, 1979.

In 1979 we reported that in many fraud cases little consideration, if any, was given to potential civil remedies until after a criminal case was completed. As a result, civil remedies often were not timely, making the total prosecutive effort less efficient and reducing the chance for recovering losses.

We further reported in 1979 that Justice's tradition of giving preeminence to criminal sanctions continued to be implemented in such a manner that the decision to proceed against fraud was made without early consideration of available civil remedies. We also reported that Justice had not provided adequate guidance to address attorneys' concerns about legal barriers to early consideration of civil sanctions, nor had Justice developed an effective referral system to help ensure that fraud cases were reviewed for civil prosecution at an early stage.

In commenting on a draft of this report, the Department of Justice pointed out recent developments in civil and criminal coordination of fraud cases. Justice stated that in recognition of the fact that the investigators and auditors who develop the evidence necessary to bring a civil or a criminal action are a key factor, the Department's Civil Division attorneys have been presenting two to four seminars each month for agency personnel for over a year. Most often, these seminars are given in connection with presentations by Justice criminal attorneys. Justice also noted that it plans to give an indepth course in civil litigation to U.S. attorney personnel this year.

According to the Department, the chiefs of various Civil Divisions of United States attorneys' offices have exchanged plans for the coordination of civil and criminal fraud cases. The Department stated that many of these plans are now functioning and involve early consideration of civil remedies. Justice also said a civil fraud course is being added to the Law Enforcement Training Center's seminar on white collar crime. 1/

According to the Department, a reorganization of the Civil Division has improved anti-fraud activities. The Department stated that more civil attorneys are handling fraud cases and the number of persons screening incoming reports on fraud has quadrupled.

We have not verified the accuracy of these statements. However, we plan to initiate a review of Federal agency efforts to

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1/The Federal Law Enforcement Training Center in Glynco, Georgia, is run by the Department of the Treasury. Since December 1978, the Center, in concert with a number of Federal organizations has sponsored a 2-week seminar on white collar crime. The program was developed specifically for experienced investigators, auditors, and others actively combating fraud, waste, and abuse in Government programs. To date, over 1,100 people from over 50 organizations have graduated from this program.

recover losses due to fraud which will include agency actions to take civil remedies against those who defraud their programs. As part of this review, we will examine the improvements that the Department of Justice has made in coordinating civil and criminal prosecutions.

AGENCIES DO NOT ALWAYS TAKE EFFECTIVE ADMINISTRATIVE ACTIONS

In about 27 percent of the over 47,000 cases where agencies were able to identify suspects, they did not take any administrative action. 1/ However, in about 2,000 of the cases where no administrative action was taken, individuals were prosecuted. In the remaining 11,000, or 22 percent, of the cases no action at all was taken.

In about a third of the cases where the information was available, the reason most often given by agencies for not taking administrative action was that they did not believe they had adequate evidence. In another 10 percent of the cases, the suspect employees resigned and the agencies felt the cases were not worth pursuing. Agencies gave a wide variety of reasons for failing to act in the remaining cases.

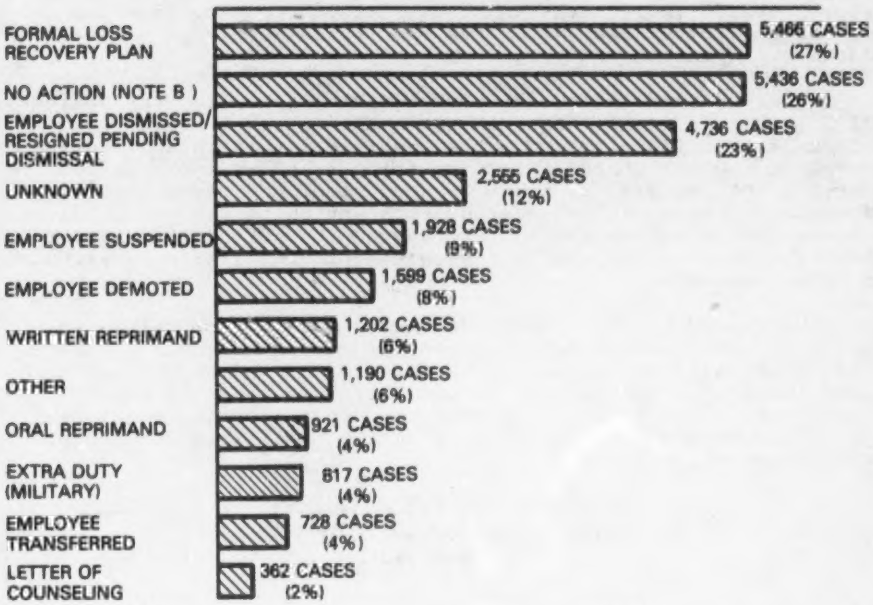
Administrative action against Federal employees

Agencies took some administrative action in about 74 percent of the cases involving fraud by Federal employees. In many cases agencies took more than one type of action. In about 23 percent of the cases, agencies either fired employees or employees resigned when notified they were being dismissed. In a little over a quarter of the total cases, agencies took administrative action to recover all or part of the loss. The chart on page 35 shows the types of actions taken.

1/In 3,148 cases where suspects were identified we were unable to determine if any action was taken.

ADMINISTRATIVE ACTIONS AGAINST FEDERAL EMPLOYEES

(20,582 CASES) (NOTE A)



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a/The percentage of actions taken total over 100 percent of the 20,582 cases because in 4,345 instances agencies took more than one administrative action. For example, in 580 cases, agencies fired employees and also took action to recover losses.

b/In 413 of these cases, legal action was taken.

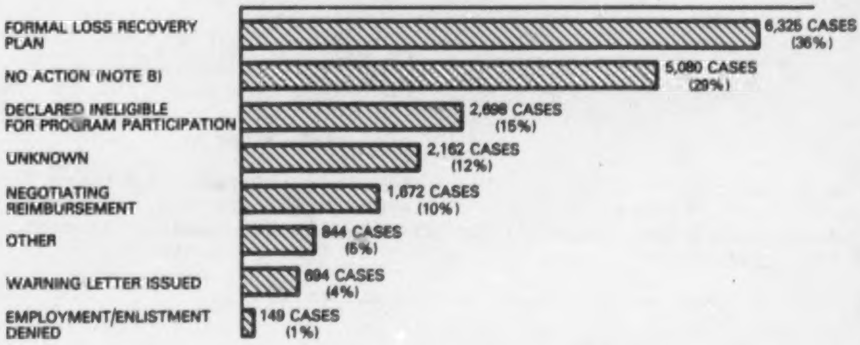
Administrative actions against individuals and organizations outside the Federal Government

The Federal Government can also take administrative action against outside individuals and organizations. These remedies are, however, often less effective than those available against Federal employees.

Overall, Federal agencies took administrative actions against individuals and organizations about 71 percent of the time. Most of these actions were to correct a specific situation and would probably not deter others from committing fraud against the Government. For example, in about 36 percent of the cases involving individuals, the agencies affected took action to recover funds. We agree that agencies should take aggressive actions to recover funds, but such recoveries in themselves provide little deterrence for others considering fraud.

Next to recovering losses, declaring persons ineligible for program participation was the second major type of administrative action taken against individual citizens. Individuals were declared ineligible for program participation in about 15 percent of the cases. The deterrent effect of this action is questionable, since many of the individuals were not eligible for the programs in the first place.

ADMINISTRATIVE ACTIONS AGAINST INDIVIDUALS
(17,536 CASES) (NOTE A)

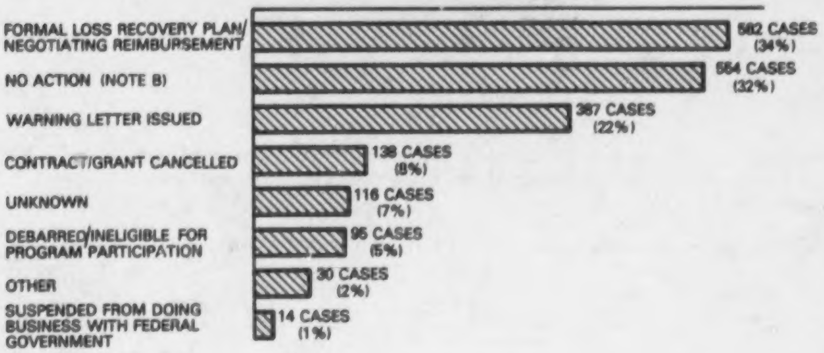


a/The percentage of actions taken total over 100 percent of the 17,536 cases because in 2,051 instances agencies took more than one administrative action.

b/In 1,177 of these cases, legal action was taken.

When Federal contractors, grantees, or State and local governments were involved, agencies attempted to recover the losses in about 34 percent of the cases. In about 22 percent of the cases they sent the organization a warning letter. Agencies cancelled contracts and grants in only 8 percent of the cases. In another 6 percent of the cases, organizations were suspended, debarred, or declared ineligible for program participation.

ADMINISTRATIVE ACTIONS AGAINST CONTRACTORS, GRANTEES, OR STATE AND LOCAL GOVERNMENTS
(1,735 CASES) (NOTE A)



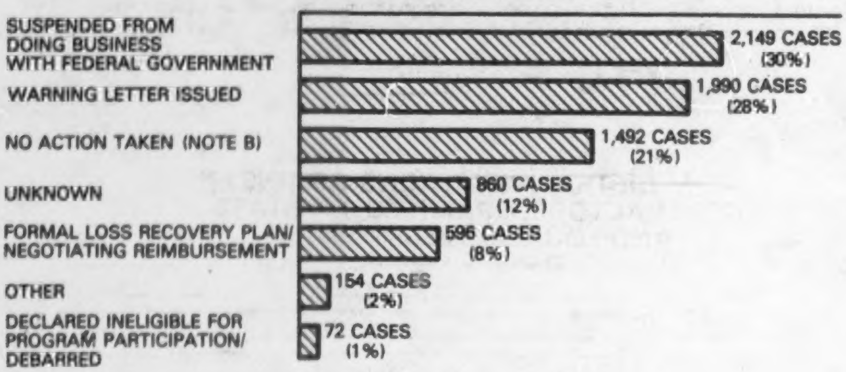
a/The percentages of actions taken total over 100 percent of the 1,735 cases because in 179 instances agencies took more than one administrative action.

b/In 132 of these cases legal action was taken.

Many businesses other than contractors were involved in the frauds. Examples include grocery stores selling ineligible items for food stamps, pharmacies overcharging on medicaid prescriptions, and lending institutions falsifying applications for federally guaranteed loans. In a little over a quarter of these cases, the organizations were suspended from doing business with the Federal Government. In another quarter of the cases, agencies sent the businesses warning letters.

ADMINISTRATIVE ACTIONS AGAINST BUSINESSES OTHER THAN CONTRACTORS

(7,200 CASES) (NOTE A)



a/The percentages of actions total over 100 percent of the 7,200 cases because in 148 instances agencies took more than one administrative action.

b/In 256 of these cases, legal action was taken.

Civil monetary penalties may be an alternative to prosecution

We believe that Federal agencies should aggressively use available administrative remedies against perpetrators of fraud. In addition, we believe that civil fine authority could be a useful enforcement tool for agencies in those cases where the Department of Justice declines to initiate criminal prosecution or civil suits. Giving certain agencies the authority to levy civil monetary penalties against those who defraud their programs could serve as a strong deterrent against would-be perpetrators of fraud against the Government.

Legislation has been introduced to provide this authority to certain agencies. The Civil Money Penalty Bill (H.R. 4106), which was introduced in the Congress in 1978, would have permitted the Secretary of the former HEW to apply a penalty of up to $2,000 for each fraudulent claim submitted to the medicaid or medicare programs, and to impose a fine double the amount of such claim. The Secretary could apply the penalties in situations where criminal prosecution was unwarranted or impractical.

More recently, the Federal Property and Administrative Services Act Amendments of 1980 was introduced in the 96th Congress to reform GSA contracting procedures and contract supervisory practices. Among other things, the legislation would have required GSA contractors to certify the truth and completeness of information required to be furnished to the Government. The contractor would be required to certify that

- --all material information has and will be furnished;
- --the material information furnished is not false, misleading, or incomplete; and,
- --the contractor will not furnish false information or fail to furnish revisions of prior submissions to maintain their validity and completeness.

The legislation would have allowed the GSA Administrator to assess a penalty against any person violating the certification. The penalty could range from $1,000 to double the contract price, depending upon the severity of the miscertification.

Neither bill was passed. However, they illustrate the types of civil monetary penalties that could be imposed by agencies.

The Department of Justice is now completing draft legislation which would allow agencies to levy civil monetary penalties in cases under $50,000. Under the legislative proposal being considered, the authority would be triggered when the Department of Justice declines to take action in favor of this remedy. In commenting on a draft of this report, Justice said that the remedy is contemplated to be a substitute for civil legal action, but is not intended to replace a criminal prosecution, if appropriate. Under the proposal being considered, a matter could be the subject of criminal prosecution and administrative penalty action. Justice also suggested that the Congress should enact legislation authorizing the offset of tax refunds to recover damages caused by fraud. We have actively supported the concept of offsetting debts against tax refunds.

We have not had the opportunity to comment on the specific legislation being developed by Justice. However, we endorse the concept of allowing agencies to levy civil monetary penalties, where appropriate, against those who defraud their programs. We believe the Congress should consider the merits of enacting legislation to allow agencies to assess civil monetary penalties against persons who defraud agency programs when the Department of Justice has declined to initiate criminal prosecutions or civil action.

CHAPTER 5

PROGRESS IS BEING MADE IN COMBATING FRAUD

In our 1978 report on the need to do more to combat fraud in Federal programs, we pointed out that Federal agencies were not aggressive in detecting fraud and had not fixed responsibility for identifying fraud in agency programs. We also reported that the Department of Justice had been slow to assist, coordinate, and monitor the antifraud efforts of Federal agencies. Since then, progress has been made in agency and Department of Justice attempts to reduce fraud against the Federal Government.

AGENCY INSPECTORS GENERAL ARE COMBATING FRAUD

Over the past 3 years the Congress has established inspector general offices in 15 Federal agencies. By setting up the inspector general offices, the Congress intended to create independent and objective units to conduct and supervise audits and investigations of agency programs and operations; provide leadership and coordination; recommend policies to promote economy, efficiency, and effectiveness; prevent and detect fraud and abuse; and keep the agency head and the Congress informed about problems in administering agency programs, and the necessity for, and the progress of, corrective actions.

The establishment of the inspector general offices in itself has been a big step forward in combating fraud because the 15 agencies now have a focal point for dealing with the problem. An example is GSA. Before the inspector general's arrival, the efforts of the components that now form his office were divergent. The Office of Audits and the Office of Investigations did not coordinate their efforts to attain their mutual objectives. Also, GSA components that now form the Office of the Inspector General were not oriented toward fraud detection and the need for operational controls to prevent fraud in the activities they were examining. The inspector general through reorganization, realignment of priorities, and new methods of operation worked to correct these problems.

In addition to providing a focal point for fraud prevention and detection, agency inspectors general have taken some important steps to improve their fraud prevention and detection capabilities. Among other things, inspectors general have been working together to address common problems, have undertaken joint interagency audits and investigations, and have taken more active approaches in dealing with fraud.

Working together to address common problems

In May 1979, the President created the Executive Group to Combat Fraud and Waste in the Government. The group is an interagency mechanism to marshal Government-wide support for the inspector general program and other efforts to combat fraud and waste. The Deputy Attorney General serves as chairman of the group and the Deputy Director of the Office of Management and Budget (OMB) is vice chairman. The Executive Group's membership includes all 15 inspectors general, the Deputy Director of the Office of Personnel Management, and the special counsel of the Merit Systems Protection Board. The Federal Bureau of Investigation, Internal Revenue Service, and Postal Inspection Service are also represented. 1/

The Executive Group has provided a communication network for the inspectors general to share ideas and problems regularly. Mainly the Group has tried to develop more effective procedures and better trained personnel to deal with fraud and waste. The Group has been dealing with problems that go beyond the capacity of individual agencies by sharing the expertise of all the agencies.

In order to study common issues and problems, the Group has set up committees, each chaired by an inspector general, to study four areas: audit and systems; enforcement and investigation; legislation, and congressional relations; and training, staffing, management, and organization. The issues being studied by the committees include:

--Law enforcement powers which might be needed by inspector general investigators, such as the power to arrest or serve warrants.

--Effectiveness of the Government's debt collection procedures.

--Computer security problems.

Joint interagency audit-investigative reviews

Often two or more agencies have similar functions which are vulnerable to the same types of fraud. Some inspectors general have initiated joint interagency audits and investigations to deal with fraud activities that cross agency lines. An example is the joint Veterans Administration/Housing and Urban Development (VA/HUD) investigations and audits of mortgage practices in Puerto Rico. So far, the VA/HUD teams have found over 100 single-family

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1/In commenting on a draft of this report, OMB said that the administration will be establishing a new council of inspectors general as a successor to the Executive Group to Combat Fraud and Waste.

mortgage loans guaranteed or insured by the VA or HUD which were based on potentially fraudulent loan applications.

Another example is a joint interagency inspector general audit of the acquisition and disposal of office furniture. The joint audit found that, over the last 10 years, Washington-based Federal agencies bought $1.2 billion worth of new office furniture while $373 million worth of new or slightly used furniture that could have been used was in storage.

Still another example of inspector general cooperative efforts is a joint investigation by the inspectors general of SBA and the Department of Agriculture to identify recipients of duplicate benefits from the Disaster Lending Programs of both agencies for 1977 crop losses. The investigation found 117 cases of duplicate payments to farmers.

Many other such joint interagency audits and investigations are either planned or underway. Joint audits and investigations can be effective mechanisms for dealing with common problems.

Inspectors general are taking more active approaches against fraud

In 1978, we reported that agencies generally took a reactive, rather than active, approach to fraud detection. Of the seven civilian agencies reviewed in 1978, only one--HUD--had an ongoing, systematic mechanism to actively look for fraud. This mechanism was operational surveys which were concentrated efforts by teams of investigators and auditors to detect fraud and program weaknesses. We reported that the surveys had uncovered numerous occurrences of suspected fraud. Since then, HUD has expanded its operational survey coverage.

In addition, the HUD inspector general established a Fraud Control Division and has assigned it several key responsibilities that increase emphasis on the detection and prevention of fraud and program abuse. Primarily the Division has tried to prevent fraud by concentrating on coordinating the Department's resources to measure and improve the systems and procedures for minimizing losses from fraud or abuse.

Other inspectors general also started programs to actively detect fraud. For example, GSA started 13 active inquiries to detect patterns of fraud and abuse in contract activities that are known to be vulnerable to fraud. The Department of Labor inspector general established a loss prevention program. The program focuses on identifying and eliminating fundamental program and system weaknesses that can lead to waste, fraud, and abuse. Another example of agency attempts to actively deal with fraud is the Fraud and Abuse Control Task Force set up by the Department of Commerce inspector general to do ongoing systematic reviews to prevent and detect fraud and abuse. The task force is supposed to encourage and aid Department managers in developing administrative control systems that minimize fraud and abuse.

These are a few examples of active approaches undertaken by agency inspectors general to prevent and detect fraud. The majority of inspector general antifraud activities are still reactive. Attempts to take the initiative against fraud have been slow getting started because of inadequate resources. With adequate resources, inspector general programs to seek out and prevent fraud could have a substantial impact in reducing fraud against the Government.

DEPARTMENT OF JUSTICE HAS IMPROVED ITS ANTIFRAUD ACTIVITIES

Since our 1978 report, the Department of Justice has tried several ways of upgrading Federal antifraud activities. It has reorganized certain Justice components, increased the training of its own and other agency personnel, and worked closely with the inspectors general through the Executive Group to Combat Fraud and Waste in the Government.

Organizational changes

The Department of Justice has reorganized both its Criminal and Civil Divisions. The Department believes the reorganization will permit better services to Federal agencies and allow Justice headquarters to work more efficiently with the U.S. attorneys. As part of the reorganization, Justice has added 12 positions to its Fraud Section and 8 positions to its Public Integrity Section. Both these sections have attorneys who work full time on fraud and corruption in Federal programs.

In addition, Justice set up economic crime enforcement units in 21 U.S. attorney's offices nationwide and has allocated 109 attorneys to the program full time. These units are staffed jointly by several assistant U.S. attorneys and one or more economic crime specialists from the Department's Criminal Division. The Division's Office of Economic Crime Enforcement centrally coordinates and directs the program. So that the whole country receives coverage, each unit processes priority white collar crime and public corruption cases in as many as five judicial districts. Fraud against the Government is one of the types of economic crimes handled by the units.

The economic crime specialists, like the assistant U.S. attorneys assigned to each unit, will handle priority cases involving fraud and public corruption. However, case preparation and trial work, which will wholly absorb the assistant U.S. attorneys, will be only part of the specialists' role. The specialists will also be involved in a number of activities directed at coordination, training, information gathering and sharing, planning, and evaluating. The activities will include (1) meeting with investigative agencies, regulatory authorities, and State and local officials to assess the white collar crime and corruption problems in their district and the effectiveness of existing efforts to deal with these problems; (2) disseminating, both within the district and to other districts, any information about new forms of corruption, particularly criminal groups whose operations extend to other regions, and about successful investigative and prosecutive techniques; (3) working with the investigative agencies to coordinate their enforcement programs and resolve jurisdictional disputes; (4) conducting or arranging for training in such areas as auditing and financial analysis for those investigative agencies weak in these fields; and (5) working with program agencies and the business community to increase awareness of fraud and corruption and to assist these groups in undertaking efforts to detect or prevent such problems.

Primary functions of the specialists will be to assess the extent of white collar crime and public corruption in the districts in which they serve, to evaluate the effectiveness of existing enforcement efforts, and to assist the U.S. attorneys in determining district priorities in these two areas. A two-step process is planned for accomplishing these goals.

The initial phase of the program is to gather information to assist the U.S. attorneys, locally, and the Attorney General, nationally, in setting priorities. Each specialist is charged with collecting information concerning past and present investigations and prosecutions in the area to which he or she is assigned. In addition, the specialist is to obtain information and recommendations from a variety of other sources in the community. From this information, the specialist will develop a report on district public corruption activities and make priority recommendations.

The next program step will be to measure the effectiveness of the units.

More training for Justice and agency personnel

The Criminal Division at Justice has started a variety of specialized fraud training programs and seminars for assistant U.S. attorneys and FBI agents. The training programs are conducted at least twice annually--once on the east coast and once on the west coast--and bring together white collar crime prosecutors and investigators for both training and strategy development.

The Federal Bureau of Investigation is also intensifying its agents' fraud investigative techniques training. The Bureau's training center in Quantico, Virginia, regularly trains agents in Government fraud and financial investigation and computer-related fraud techniques.

In addition to internal training improvements, Justice has increased its training assistance to program agencies. Over the last couple years, Justice has been giving agency investigators a 1-day training session to improve their ability to deal with major Government fraud matters. The course is taught by two experienced Federal prosecutors and provides instructions on relevant criminal statutes, investigative techniques, task force approaches, grand jury and trial procedures, and other related topics.

Justice has also assisted in several interagency efforts to improve fraud training for investigators and auditors. An example is the assistance it has provided to the Federal Law Enforcement Training Center. For the past 2 years, the Center has conducted a 2-week white collar crime seminar for experienced investigators and auditors. The Criminal Division of the Department of Justice is responsible for 12 hours of the instruction which is provided by senior prosecutors. Over 1,100 investigators and auditors have attended the program to date.

Working with the inspectors general

The Department of Justice is exercising leadership in supporting the Executive Group to Combat Fraud and Waste in the Government. As mentioned earlier, the group is chaired by the Deputy Attorney General. Over the past year, the Department has worked actively with the Executive Group to address common issues facing the inspectors general. In addition, the Subcommittee on Investigative Agencies of the Attorney General's Advisory Committee of United States Attorneys has met during the past several years with the inspectors general and officials of the major Federal investigative agencies in an effort to improve working relationships between the agencies and the U.S. attorneys.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

Fraud is a costly and widespread problem. Once an agency allows fraud to happen, chances are it will never recover the loss. Not only is fraud expensive in terms of dollars and cents, but it also undermines the integrity of Federal programs and makes people lose confidence in public institutions.

Good systems of internal controls would prevent much of the fraud, or would at least result in its earlier detection. Controls over Federal programs are, however, often inadequate, nonexistent, or ignored. Further, Federal managers are often unconcerned with enforcing the controls needed to prevent frauds. Fraud can flourish in such an environment.

Much fraud is detected by chance. Given the poor state of controls in many programs, it is probable that most frauds remain undetected. For those who are caught committing fraud, the chances of being prosecuted and eventually going to jail are slim. Further, agencies do not always use the administrative actions available to deter persons from committing fraud. The sad truth is that crime against the Government often does pay.

Agency inspectors general, along with the Department of Justice, are working to improve the situation. They have initiated programs not only to increase the detection of fraud, but also to improve controls to prevent it. Even so, much more needs to be done.

We believe agencies should emphasize fraud prevention, rather than simply pursuing it once it occurs. Prevention is especially important, since only a low percentage of suspects are prosecuted and agencies often fail to take effective administrative actions against those who commit fraud.

In our view, the Congress' oversight responsibility can be exercised to a greater and more effective degree by strengthening existing law. The Congress is currently considering legislation entitled the Federal Managers' Accountability Act of 1981 that would require greater accountability by heads of Federal agencies for the effectiveness of their organizations' systems of internal financial control. Among other things, the legislation would require agency heads to periodically evaluate the adequacy of their internal control systems and report the results to the Congress and the President. We would participate in this process by providing guidance for conducting the examinations and by reviewing the results. We believe this legislation would contribute to the development of adequate internal control systems in the Federal Government.

We also believe that more needs to be done to assure that those who commit fraud are adequately punished. We recognize that the Department of Justice cannot prosecute every case referred. This makes it even more important that Federal agencies take effective administrative actions where warranted. In addition, we believe that civil fine authority could be a useful enforcement tool for agencies in those cases where Justice does not take criminal or civil action. We believe the Congress should consider the merits of enacting legislation to allow agencies to assess civil monetary penalties when the Department of Justice declines to take criminal or civil action against persons who defraud agency programs.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress enact the Federal Managers' Accountability Act of 1981.

MATTERS FOR THE CONGRESS TO CONSIDER

We recommend that the Congress consider the merits of enacting legislation to allow agencies to assess civil monetary penalties against persons who defraud Federal programs. The authority to assess such a penalty should be effective when the Department of Justice declines to take criminal or civil action on the case.

RECOMMENDATION TO THE DEPARTMENT OF JUSTICE

The Department of Justice should expedite completion of its draft legislation to give agencies the authority to levy civil monetary penalties and should submit the legislation to the Congress for its consideration.

Chapter 7

AGENCY COMMENTS

We requested that the Office of Management and Budget and the Department of Justice comment on a draft of this report. We also gave each of the other agencies covered in the study an opportunity to review and comment on the draft report. In addition to OMB and Justice, the Departments of Health and Human Services, Housing and Urban Development, Labor, and Transportation, as well as the General Services Administration, the Small Business Administration, the Environmental Protection Agency, and the U.S. Postal Service commented on the report. The agencies generally agreed with our findings, conclusions, and proposals. The full texts of the agencies' comments are in appendixes II through XIV.

OFFICE OF MANAGEMENT AND BUDGET

OMB said fraud and abuse in the Federal Government must be controlled as quickly as possible. The Office agreed that improved control systems can contribute significantly to solving the problem.

The Office said that in addition to the legislative proposals discussed in the report, OMB is considering administrative remedies such as a circular (see pp. 63-64) which would prescribe policies and procedures to be followed by executive agencies in adopting and maintaining more effective internal control systems.

We believe an OMB circular would be beneficial since it would provide a vehicle to implement urgently needed improvements in internal controls. We have reviewed the proposed circular and have given OMB comments on a number of items we believe could be clarified.

DEPARTMENT OF JUSTICE

The Department of Justice said the report reflects a balanced understanding of the Government actions required to effectively respond to the problem of fraud and abuse in Federal programs. The Department basically agreed with the findings, conclusions, and proposals contained in the report. However, the Department believed that the report did not adequately address the recent improvements in coordinating civil and criminal fraud cases. In the body of the report, we included some of the information provided by Justice on recent developments in this area.

Also, we incorporated in the body of the report the Department's clarification of its white collar crime priorities. In addition, the Department made several technical comments which resulted in minor changes to the report. Justice's substantive comments not included in the report are discussed below.

The Department said that the charts on pages 7 and 11 are misleading because they were prepared from agencies' records of identified fraud cases. According to Justice, one would expect a higher detection rate for Federal employees (and unknowns) simply because this is the readily available "tip of the iceberg" located at the Federal level. Justice said that the report gives the impression that most fraud is committed by Federal employees when, from all indications, the extent of fraud and abuse in federally funded programs at the recipient level is much greater than that committed by Federal employees.

Our report dealt only with cases investigated by Federal agencies as explained in the scope section of our report (p. 2). We agree that if recipient fraud investigated at the State and local levels in such programs as food stamps and Aid to Families With Dependent Children were included in our universe the percentage of Federal employees in our statistics would be very much smaller. Also, the dollar losses would be much higher. However, we excluded State and local investigations because it was not feasible to obtain data on these cases given the large number of separate jurisdictions involved. Also, the Federal Government has little control over these programs.

The Department was concerned that our report did not point out that most fraud cases are referred to the Department by the Federal Bureau of Investigation and not by agencies. According to Justice, about 5,000 reports of potential fraud against the Federal Government are referred to its Civil Division each year. The Department stated that during the 2-1/2 year period studied by GAO, only 685 referrals contained enough evidence of monetary loss to justify assignment to a division attorney for further review. As a result of these referrals, about 70 new fraud cases were filed by Civil Division attorneys during the 2-1/2 year period, and United States attorneys' offices filed additional cases.

Our statistical data did include Federal agency cases referred to the Department of Justice by the Federal Bureau of Investigation. The 5,000 reports of potential fraud referred to the Civil Division by the Bureau are reports of allegations that the Bureau is required to routinely file with the Department's Criminal and Civil Divisions, regardless of the substance of the allegations. Our data is based only on cases where the agencies or the Bureau believed there was enough substance to warrant an investigation. Further, the 685 referrals and 70 cases filed by the Civil Division in the 2-1/2 year period pertain to fraud cases referred from all sources and cover all Federal activities. Our statistics, on the other hand, are based only on cases involving the 21 agencies covered in our review. The Justice comments, however, confirm that the number of civil actions filed during the period was low.

In its comments on the report, Justice noted that the majority of our cases appeared to involve small monetary amounts, and prosecuting these cases would cost several times the amount of potential recovery. The Department believes that the resources of the civil division and of the United States attorneys' offices are best spent in pursuing recoveries where large amounts are at stake.

We agree that it may not be practical and/or cost effective to pursue civil remedies in many fraud cases. Even so, we believe such remedies should be considered in evaluating each case for possible action. Although not strictly cost effective, selective civil actions in a limited number of small dollar frauds may have a deterrent benefit.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HUD generally supported the conclusions and proposals made in the report. However, the Department pointed out that agency heads have been responsible for 3 decades for the soundness of their financial systems. (The Budget and Accounting Procedures Act of 1950 requires the heads of the executive agencies to establish and maintain effective internal accounting and administrative control systems.) The Department believes that additional legislative initiatives will not produce the intended results until management's concern for controls is commensurate with its concern for production goals. The Department also said that the proposed legislation will have little impact unless the administration and the Congress provide the resources managers would need to carry out the new law.

We agree that the legislation itself will not improve the situation without a serious attempt by management to follow the intent of the legislation. We believe, however, that the legislation would encourage managers to ensure that their agencies' programs have adequate internal controls. We would participate in this process by providing guidance for conducting the internal control evaluations required by the legislation and by reviewing the results.

With respect to the resource requirements, we recognize that agencies have limited resources that must be allocated among a variety of competing demands. The legislation we are recommending would require managers to take a harder look at the way they use their limited resources. Managers would be required to give a higher priority to establishing and maintaining effective internal control systems than they have in the past.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation believes the report oversimplifies the solution to combating fraud by claiming that sound internal control systems are the general answer to fraud and illegal activities. The Department also stated that additional legislation is not needed since the Budget and Accounting Act of 1921 and the Accounting and Auditing Act of 1950 already cover this requirement. The Department further noted that the Inspector General Act of 1978 added strength to agencies' control over fraud and illegal acts.

We recognize that internal controls cannot prevent all fraud, and say so in the report. The point is that good systems of control can prevent much of the fraud. The deterrent effect of prosecutions and administrative sanctions is another important factor in dealing with the problem.

The laws cited by the Department of Transportation, along with the Budget and Acounting Procedures Act of 1950, were significant milestones in improving the control of Federal funds. The Federal Managers' Accountability Act of 1981, which would require agency heads to evaluate and report on the adequacy of their internal controls, supplements previous legislation on this subject. It further encourages agency heads to develop and enforce adequate internal control systems.

DEPARTMENT OF LABOR

The Department of Labor agreed with our conclusions and proposals. However, this Department noted that staff expertise available to develop and analyze effective fraud and abuse detection and prevention controls may be inadequate.

The legislation we are recommending would require managers to give a higher priority to establishing and maintaining effective internal controls and take a harder look at how they allocate their limited resources.

U.S. POSTAL SERVICE

The Postal Service said that our statements that most losses go undetected and that controls to prevent fraud are often inadequate, nonexistent, or ignored by agency officials do not apply to thefts of registered and insured mail. According to the Service, controls to prevent the theft of registered and insured mail are elaborate and have full support from Postal officials.

We recognize that the statements in question do not apply to every Federal program and activity and that the handling of registered and insured mail is highly controlled. Even so, we believe the lack of adequate internal controls is a serious and pervasive problem throughout the Federal Government.

OTHER AGENCIES

The Department of Health and Human Services, the General Services Administration, the Small Business Administration, and the Environmental Protection Agency agreed with the report's conclusions and proposals. The Department of the Treasury did not comment on our conclusions and proposals, but provided information on Treasury's role in training Federal personnel who combat fraud, waste, and abuse in Government programs.

U.S. GENERAL ACCOUNTING OFFICE DATA COLLECTION INSTRUMENT FOR ALLEGED FRAUD CASES

INSTRUCTIONS:

1. Read the Audit Program/Coding Manual
2. Use blue or red pencil
3. Make sure all entries are clear and legible
4. Right justify all numbers
5. Enter Case number where required

Prepared by: ______

Date: ______

Agency Location: ______

Reviewed by: ______

Date: ______

1. ☐☐ Department/Agency Code (Attachment A) (1-2)
   Department/Agency Name ______
2. ☐☐☐☐ GAO Case Number (3-6)
3. ☐1 Card Number (7)
4. Agency case or referral number: ______

FOR REGIONAL OFFICE USE ONLY

Prepared by: ______

Date: ______

Agency Location: ______

Reviewed by: ______

Date: ______

5. How was alleged fraud discovered? (9-10)
   (Check one box only.)

   (01) ☐ Routine audit, inspection investigation or review
   (02) ☐ Specially requested audit, inspection or review
   (03) ☐ Federal employee (knowledge gained through work)
   (04) ☐ Former federal employee
   (05) ☐ Contractor personnel
   (06) ☐ Former contractor personnel
   (07) ☐ Grantee personnel (exclude state or local government personnel)
   (08) ☐ Former grantee personnel
   (09) ☐ State or local government personnel
   (10) ☐ Former state or local government personnel
   (11) ☐ Private individual (not former employee
   (12) ☐ Anonymous informant
   (13) ☐ Consumer Complaint Form
   (14) ☐ Paid Informant
   (15) ☐ Unsuccessful Bidder
   (16) ☐ News media
   (17) ☐ Congressional Committee - Member - Staff
   (18) ☐ Alleged victim
   (19) ☐ Confession by perpetrator
   (20) ☐ Law endorcement investigation - state and local
   (97) ☐ Not Applicable
   (98) ☐ Other (Specify) ______
   (99) ☐ Unknown

6. If boxes 1 or 2 were checked in question #5, indicate whether it was an audit, inspection, or investigation? (11)
   (1) ☐ Audit
   (2) ☐ Inspection
   (3) ☐ Investigation
   (4) ☐ Internal compliance or eligibility review

7. If boxes 1 or 2 were checked in question #5, indicate:

   Job Number: ______

   Date: ______

   Job (or report) Title: ______

8. In how many locations did the alleged fraudulent activity take place? (12-13)

☐☐ Number of locations

9. If alleged fraud occurred at only one location, provide appropriate information under principal location. If alleged fraud activity occurred at more than one location, provide the principal location and the second most important location.

Principal location:

City ______________________________

State or Foreign Country (Attachment B) ☐☐ (14-15)

2nd most important location:

City ______________________________

State or Foreign Country (Attachment B) ☐☐ (16-17)

10. What is the functional area in which the alleged fraud occurred? (Check one box only.) (18-19)

(01) ☐ procurement - award
(02) ☐ property disposition
(03) ☐ payroll
(04) ☐ grants
(05) ☐ financial assistance to individuals (excludes loans)
(06) ☐ enforcement (i.e. ATF, Customs, IRS)
(07) ☐ provision of health care or social services
(08) ☐ loans
(09) ☐ loan guarantees
(10) ☐ personnel
(11) ☐ inventory control
(12) ☐ mail service
(13) ☐ Cash control
(14) ☐ Procurement-monitoring
(15) ☐ Travel
(16) ☐ Administrative services
(17) ☐ Training and Education
(18) ☐ Personal property management
(97) ☐ Not Applicable
(98) ☐ Other (please specify) ______________________________
(99) ☐ Unknown

11. Name of agency or major division within department or agency listed in question #1.

Agency/Division Name ______________________________

Agency/Division Code ☐☐ (21-22)
(Attachment C)

12. Name of Federal program involved in the fraud. (optional)

Federal program name ______________________________

Federal program code ☐☐ (23-24)

13. Frequency of alleged fraud activity. (25)

(1) ☐ Once
(2) ☐ 2 - 5 times
(3) ☐ 6 - 10 times
(4) ☐ 11 - 15 times
(5) ☐ 16 - 20 times
(6) ☐ 21 - 25 times
(7) ☐ Over 25 times
(9) ☐ Unknown

14. Indicate the period of time over which the alleged fraudulent activity took place. (26)

(1) ☐ Less than 3 months
(2) ☐ 3 to 6 months
(3) ☐ 6 months to one year
(4) ☐ 1 to 2 years
(5) ☐ More than 2 years
(9) ☐ Unknown

15. Approximately how much time had elapsed between the time the alleged fraudulent act was committed and the time it was reported or discovered? (27)

(1) ☐ Less than 3 months
(2) ☐ 3 to 6 months
(3) ☐ 6 months to one year
(4) ☐ 1 to 2 years
(5) ☐ More than 2 years
(9) ☐ Unknown

16. At the time the fraudulent act was committed, who was responsible for the administration of the Federal funds or for the administration of the Federally financed programs or projects involved in the fraud? (28)

(1) ☐ Federal Government officials
(2) ☐ State or local government officials
(3) ☐ Foreign government officials
(4) ☐ Federal contractors
(5) ☐ Non-profit organizations
(6) ☐ Grantees (other than state or local government officials or non-profit organizations)
(7) ☐ Financial Institutions
(9) ☐ Fiscal Agent
(97) ☐ Not applicable
(99) ☐ Unknown

17. Was the computer necessary (material) in committing the fraudulent activity? (29)

(1) ☐ Yes
(2) ☐ No

18. Participants in the alleged fraud. (Check one box only.) (30)

(1) ☐ Federal Government employees only
(2) ☐ Federal Government employees in conjunction with others
(3) ☐ State and local government employees
(4) ☐ Federal contractor(s)/grantee(s) personnel - other than State and local governments
(5) ☐ Corporate recipient(s) of Federal Government financial assistance
(6) ☐ Individual recipient(s) of Federal Government financial assistance
(7) ☐ Other individual citizens
(8) ☐ Other corporate or business entities (such as lending institutions)
(9) ☐ Unknown
(10) ☐ State and local government employees in collusion with individual recipient(s) of Federal Government financial assistance
(11) ☐ Federal contractor(s)/grantee(s) personnel - (other than State and local government(s) in collusion with individual recipient(s) of Federal Government financial assistance
(12) ☐ Corporate recipients of Federal Government financial assistance in collusion with individual recipient(s) of Federal Government financial assistance
(13) ☐ Other corporate or business entities (such as lending institutions in collusion with individual recipient(s) of Federal Government financial assistance
(14) ☐ Federal Government employees in conjunction with non-Federal Governmental organizations.
(15) ☐ Federal Government employees in conjunction with individual recipient(s)
(16) ☐ Federal Government employees in conjunction with non-Federal governmental organizations and individual recipient(s)

19. How many types of fraud were involved in this alleged fraud case? (31)

(1) ☐ One type of fraud
(2) ☐ Two types of fraud
(3) ☐ 3 to 5 types of fraud
(4) ☐ 6 to 10 types of fraud
(5) ☐ 11 to 25 types of fraud
(6) ☐ Over 25 types of fraud
(9) ☐ Unknown

20. Indicate the type of fraud by selecting the code in the appropriate section of Attachment D that best describes the fraud activity in this case. See Attachment D. If more than one type of fraud was involved, select the code for the principal type of fraud involved in this case and the next most important type of fraud.

Principal Fraud ☐☐☐ (32-34)
Second Fraud ☐☐☐ (35-37)

Federal Government Employees

(This section should be completed only if boxes 1 or 2 were checked in question #18)

21. How many Federal Government employees were involved in the fraudulent activity? (38)

(1) ☐ One
(2) ☐ Two to five
(3) ☐ Six to twenty
(4) ☐ Over twenty
(9) ☐ Unknown

22. Which of the following categories best describes the occupation or position of the Federal employee(s) involved in the fraudulent activity?
(Check one box only.) (39-40)

(01) ☐ Accountants
(02) ☐ Attorneys
(03) ☐ Auditors
(04) ☐ Computer personnel
(05) ☐ Contracting and procurement officials
(06) ☐ Program officials - Top policy-making management
(07) ☐ Program officials - managers or supervisors
(08) ☐ Program officials - Staff
(09) ☐ Investigator
(10) ☐ Inspector (housing, food, safety, pollution)
(11) ☐ Law enforcement officer
(12) ☐ Regulatory official
(13) ☐ Logistics and inventory control officials
(14) ☐ Clerical workers
(15) ☐ Members of the Armed Forces
(16) ☐ Skilled craftsmen
(17) ☐ Semi-skilled
(18) ☐ Laborers
(19) ☐ Doctors
(97) ☐ Not Applicable
(98) ☐ Other (Please specify) ______

(99) ☐ Unknown

Non-Federal Government Organizations

(This section should be completed only if boxes 2, 3, 4, 5 or 8 were checked in question #18)

23. How many non-Federal Government organizations were involved in the fraudulent activity? (41)

(1) ☐ One
(2) ☐ Two
(3) ☐ Three to ten
(4) ☐ Over ten
(9) ☐ Unknown

24. How many employees of these organizations were involved in the fraudulent activity? (42)

(1) ☐ One
(2) ☐ Two
(3) ☐ Three to ten
(4) ☐ Over ten
(9) ☐ Unknown

25. Which category below best describes the employees of the non-Federal Government organization that were involved in the fraudulent activity. (Check one box only.) (43-44)

(01) ☐ Company or corporate officers (president, VP, treasurer, or secretary)
(02) ☐ Plant manager/superintendent
(03) ☐ Professionals (attorneys, accountants, engineers, etc.)
(04) ☐ Technical (technicians, para-professionals, etc.)
(05) ☐ Sales workers
(06) ☐ Skilled craftsmen, foreman, skill trades, skilled and kindred workers
(07) ☐ Operators (semi-skilled)
(08) ☐ Laborers
(09) ☐ Clerical
(10) ☐ State and Local Government officials
(97) ☐ Not applicable
(98) ☐ Other (Specify) ______

(99) ☐ Unknown

26. From the listing in Attachment E insert the code that best describes the product or service provided by the non-Federal Government organization.

Product or Service Code

☐☐☐ (45-47)
(Attachment E)

Individual Recipient of Federal Financial Assistance

(This section should be completed only if boxes 2, 3 6, 7, or 8 were checked in question #18.)

27. How many individual citizens were involved in the fraudulent activity? (48)

(1) ☐ One
(2) ☐ Two
(3) ☐ Three to ten
(4) ☐ Over ten
(7) ☐ Not applicable (9) ☐ Unknown

28. Which category below best describes the role of the individual citizen(s) at the time they were engaged in the fraudulent activities? (Check one box only.) (49)

(2) ☐ Welfare recipient
(5) ☐ Medicare/medicaid recipient
(7) ☐ Not applicable
(8) ☐ Other (Specify) ______________
(9) ☐ Unknown
(10) ☐ Current or former federal employee dependent
(11) ☐ Job applicant
(12) ☐ Loan/mortgage applicant
(13) ☐ Housing loan/mtg. guarantee recipient
(14) ☐ Education loan guarantee recipient
(15) ☐ Housing direct loan recipient
(16) ☐ Education loan recipient
(17) ☐ Diaster loan guarantee recipient
(19) ☐ Pensioner and/or dependent of pensioner
(20) ☐ Disability recipients
(21) ☐ Education benefits/grants recipient
(22) ☐ Death benefits recipient
(23) ☐ Disability/medical care recipient
(24) ☐ Disaster assistance recipient
(25) ☐ Housing (mortgage/rent) assistance
(26) ☐
(27) ☐ Training/Education recipient
(28) ☐ Taxpayers
(29) ☐ Designated representative of assistant recipient
(30) ☐ Postal patrons

Loss (or Potential Loss) Due to Fraud

29. If the specific dollar amount of the loss incurred by the Federal Government in this fraud case has been identified, insert it below.

☐☐☐☐☐☐☐☐ (50-57)

(If multiple violations, indicate total amount of loss)

If the specific dollar amount of the loss is not available, please estimate the dollar amount of the loss incurred by the Federal Government for this case. (58-59)

(01) ☐ Less than $100
(02) ☐ $101 to $1000
(03) ☐ $1001 to $10,000
(04) ☐ $10,001 to $100,000
(05) ☐ $100,001 to $500,000
(06) ☐ $500,001 to $1 million
(07) ☐ Over $1 million
(08) ☐ Monetary loss but unable to estimate loss to Federal Government
(97) ☐ Not applicable because no monetary loss involved

30. If the fraudulent activity did not result in a direct dollar loss to the Federal Government, indicate the effect that occurred or may occur. (Check one box only.) (60)

(1) ☐ Potential harmful effects to the health or safety of individuals
(2) ☐ Received benefits for which ineligible
(3) ☐ Received benefits greater than entitled to
(4) ☐ Intended recipients did not receive benefits
(5) ☐ Potential harmful effect to state on local economies
(7) ☐ Not applicable
(8) ☐ Other (Describe)
(9) ☐ Unknown
(10) ☐ Recipients did not receive intended benefits
(11) ☐ Preferred Treatment
(12) ☐ Unauthorized disclosure of information
(13) ☐ Potential loss of claim is made and approved

31. Indicate whether a final decision or determination on the alleged fraud case has been made (closed case) or whether the investigation or prosecution on the alleged fraud case has not been completed (open case). (61)

- (1) ☐ Closed Case
- (2) ☐ Open Case

32. Indicate whether administrative action, legal action or both types of action were taken.

- (1) ☐ Closed cases- administrative action only - no action taken
- (2) ☐ Closed cases - administrative action only - some substantive action taken
- (3) ☐ Closed cases - only legal action taken
- (4) ☐ Closed cases - both administrative (substantive) action and legal action taken
- (5) ☐ Closed cases - no action taken since participant is unknown
- (6) ☐ Closed cases - type of action taken is unknown
- (7) ☐ Open cases - administrative action only - no action taken
- (8) ☐ Open cases - administrative action only - some substantive action taken
- (9) ☐ Open cases - legal action only taken
- (10) ☐ Open cases - both administrative (substantive) action and legal action taken
- (11) ☐ Open cases - no action taken since participant is unknown
- (12) ☐ Open cases - case is pending

33. Is the alleged "open" fraud case under investigation at source agency or has it been referred to another agency for investigation or prosecution. (Check one box only.) (63-64)

Case # ________

- (01) ☐ Case under investigation or consideration by source agency (Skip to question #50)
- (02) ☐ Case referred to FBI
- (03) ☐ Case referred to U.S. Attorney or other Justice Department division for prosecution
- (04) ☐ Case referred to State or local authorities
- (05) ☐ Case referred to IRS
- (06) ☐ Case referred to Postal Service
- (07) ☐ Case referred to GAO
- (08) ☐ Case referred to Secret Service
- (09) ☐ Case referred to Department of Labor
- (10) ☐ Case referred to other Federal agency. (Please specify)
- (98) ☐ Other (Please describe) ________
- (99) ☐ Unknown

34. What is the current status of the alleged fraud case referred to another agency? (Check one box only.) (9)

- (1) ☐ Case under investigation
- (2) ☐ Case under advisement
- (3) ☐ Case scheduled for prosecution
- (4) ☐ Case being prosecuted
- (8) ☐ Other (Please describe) ________
- (9) ☐ Unknown

35. If prosecution declined for this case, what was the reason given? (Check one box only.) (10)

- (1) ☐ Insufficient evidence for prosecution
- (2) ☐ No loss to Federal Government
- (3) ☐ Dollar loss insignificant
- (4) ☐ Case lacks jury appeal
- (5) ☐ Statute of limitations
- (6) ☐ Insufficient staff resources
- (7) ☐ lacks prosecution merit
- (8) ☐ Other (Please specify) ________
- (9) ☐ Unknown
- (10) ☐ No apparent violation of Federal Law
- (11) ☐ Declined in lieu of Administrative Action

Skip to question #50

ADMINISTRATIVE ACTION

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36. Indicate the type of administrative action taken against Federal Government employees. (Check all that apply.)

- (01) ☐ No action taken (Skip to question #39) (11)
- (02) ☐ Federal Employee dismissed (12)
- (03) ☐ Federal employee suspended (13)
- (04) ☐ Federal employee issued warning letter (14)
- (05) ☐ Federal employee issued letter of counseling (15)
- (06) ☐ Federal employee issued oral warning (16)
- (07) ☐ Federal employee demoted (17)
- (08) ☐ Federal employee transferred (18)
- (09) ☐ Formal loss recovery plan agreed to: (Indicate total amount of planned recoveries) (19)

  ☐☐☐☐☐☐☐☐ (21-28)
- (10) ☐ Extra duty (military)

(11) ☐ Employee resigned pending dismissal
(97) ☐ Not applicable
(98) ☐ Other
(99) ☐ Unknown

37. Indicate the type of administrative action taken against non-Federal Government organizations (contractors, corporation, non-profit organizations, state and local governments, etc.) or individuals involved in the fraud case.
(Check all that apply.)

(1) ☐ Suspended from doing business with the Federal Government (30)

(2) ☐ Debarred from doing business with the Federal Government (31)

(3) ☐ Contract/grant cancelled (32)

(4) ☐ Issued warning and they agreed to take corrective action (33)

(5) ☐ Formal loss recovery plan agreed to (Indicate total amount of planned recoveries) (34)

☐☐☐☐☐☐☐ (36-42)

(6) ☐ No action taken (35)

(7) ☐ Negotiating reimbursement (8-9)

(8) ☐ Declared ineligible for program participation under status claimed (10-11)
(9) ☐ Employee/enlistee dismissed; application/enlistment denied (12-13)
(97) ☐ Not applicable (14-15)
(98) ☐ Other
(99) ☐ Unknown (18-19)

37a. Indicate the type of administrative action taken by a non-Federal organization against another organization (sub-contractor, sub-sponsor, sub-recipient, etc.) employees of individuals involved in the fraud case.
(Check all that apply.)

(01) ☐ No action taken (21-23)
(02) ☐ Employee dismissed (23-24)
(03) ☐ Employee suspended (25-26)
(04) ☐ Employee reprimanded (27-28)
(05) ☐ Employee demoted (29-30)
(06) ☐ Formal loss recovery plan agreed to with employee (indicated total amount of recoveries) (31-32)

☐☐☐☐☐☐☐☐ (33-40)

(07) ☐ Contract/grant cancelled (41-42)
(08) ☐ Contract/grant not renewed (43-44)
(09) ☐ Formal loss recovery plan agreed to with other organizations or individuals (indicate total amount of recoveries) (45-46)

☐☐☐☐☐☐☐ (47-53)

(10) ☐ Other (please specify) (54-55)

____

____

(11) ☐ Unknown (56-57)

38. Why was administrative action taken rather than legal action? (Check one box only.) (44-45)

(01) ☐ Isolated incident

(02) ☐ Immaterial amount

(03) ☐ Minor infraction

(04) ☐ Evidence and documentation insufficient for legal action

(05) ☐ Department of Justice declined case (if checked go to #35)

(06) ☐ U.S. Attorney declined case (if checked go to #35)

(07) ☐ Other Federal agency declined case

(08) ☐ Foreign nationals involved and legal action considered detrimental to the U.S. Government interest

(09) ☐ Statute of limitations

(10) ☐ Hardship cases

(11) ☐ Funds recovered

(98) ☐ Other (Please describe) __________

____

(99) ☐ Unknown

Skip to question #50.

39. Indicate the reason no administrative action was taken in the alleged fraud case? (Check one box only.) (46)

☐ (1) Case investigated by agency and dismissed because no evidence of fraud found.

☐ (2) Federal employee resigned and agency felt the alleged fraud matter was not worth pursuing.

☐ (3) Foreign nationals involved and administrative action considered not in the best interest of the U.S. Government.

☐ (4) Statute of limitations

☐ (5) Fraud (or crime) committed and case investigated but no suspect found.

☐ (6) Lack of adequate evidence and documentaion

☐ (7) Not applicable

☐ (8) Other (please duscribe)

____

☐ (9) Unknown

☐ (10) Immaterial amount/Isolated incident

☐ (11) Fraud committed/suspect identified/prosecution declined

☐ (12) Insufficnet evidence for legal action

☐ (13) Contractor or Grantee took action against an employee

☐ (14) Perpetrator (s) not Federal employee or otherwise subject to administrative action

☐ (15) Civil action or prosecution

☐ (16) Suspect could not be found

SKIP TO QUESTION #50.

LEGAL ACTION

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40. Was this case prosecuted as a civil or criminal case? (47)

(1) ☐ Civil case

(2) ☐ Criminal case

(3) ☐ Civil and criminal prosecution

(4) ☐ Pre-trial diversion

(5) ☐ Court martial

41. Indicate the outcome of the criminal prosecution? (48)

(1) ☐ Acquittal

(2) ☐ Conviction (quality plea, nolo contendre)

(3) ☐ Other (Please specify)

(9) ☐ Unknown

42. Indicate the outcome of the civil proceeding. (49)

(1) ☐ judgment for plaintiff

(2) ☐ judgment for the defendant

(3) ☐ case dismissed

(9) ☐ Unknown

43. If the defendants convicted, indicate the amount of fines, recoveries, and restitutions.

Fines ☐☐☐☐☐☐☐☐ (51-58)

Recoveries ☐☐☐☐☐☐☐☐ (61-68)

Restitutions ☐☐☐☐☐☐☐☐ (71-78)

Sentencing Data

44(a) Actual sentence (in months) ☐☐☐ (9-11)

44(b) Sentence suspended (in months) ☐☐☐ (12-14)

44(c) Portion of sentence to be served on probation (in months) ☐☐☐ (15-17)

44(d) Portion of sentence to be served in prison (in months) ☐☐☐ (18-20)

If more than one person sentenced provide following information on additional persons.

SECOND PERSON

45(a) Actual sentence (months) ☐☐☐ (21-23)

45(b) Sentence suspended (months) ☐☐☐ (24-26)

45(c) Portion of sentence to be served on probation (months) ☐☐☐ (27-29)

45(d) Portion of sentence to be served in prison (months) ☐☐☐ (30-32)

THIRD PERSON

46(a) Actual sentence (months) ☐☐☐ (33-35)

46(b) Sentence suspended (months) ☐☐☐ (36-38)

46(c) Portion of sentence to be served on probation (months) ☐☐☐ (39-41)

46(d) Portion of sentence to be served in prison (months) ☐☐☐ (42-44)

FOURTH PERSON

47(a) Actual sentence (months) ☐☐☐ (45-47)

47(b) Sentence suspended (months) ☐☐☐ (48-50)

47(c) Portion of sentence to be served on probation (months) ☐☐☐ (51-53)

47(d) Portion of sentence to be served in prison (months) ☐☐☐ (54-56)

FIFTH PERSON

48(a) Actual sentence (months) ☐☐☐ (57-59)

48(b) Sentence suspended (months) ☐☐☐ (60-62)

48(c) Portion of sentence to be served on probation (months) ☐☐☐ (63-65)

48(d) Portion of sentence to be served in prison (months) ☐☐☐ (66-68)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 12 1981

D. L. Scantlebury
Division Director and
Chief Accountant
General Accounting Office
Washington, D. C. 20548

Dear Mr. Scantlebury:

Thank you for the opportunity to review your draft report, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

Fraud and abuse in the Federal Government, such as that described in your report, must be brought under control as quickly as possible. As the draft report concludes, improved internal control systems can make a significant contribution to solving this problem.

The Office of Management and Budget is in the process of reviewing both the proposed House and Senate bills which you recommended be enacted. In addition to these legislative proposals, we are considering administrative remedies such as a circular (copy enclosed) which would prescribe policies and procedures to be followed by executive agencies in adopting and maintaining more effective internal control systems. We appreciate the positive contributions that the GAO made to the inter-agency task force which developed the proposed circular.

Among other things, the circular would require each agency head to:

- issue an internal control directive and submit it to OMB for approval;
- set up administrative mechanisms to enforce internal control requirements;
- make vulnerability assessments and risk analyses of all major programs;
- arrange for audits of all internal control systems, and of agency compliance with the systems;

- specify the internal control responsibilities of each top manager; and
- incorporate these responsibilities into the performance appraisal of top managers.

The issuance of a circular such as this would provide a framework for agency internal control systems. But this Administration is committed to going much farther in addressing the problems of fraud and waste in Government.

As your draft report acknowledges, the creation of statutory Inspectors General in late 1978 has resulted in progress. We believe more needs to be accomplished. The Administration will be taking positive steps to reenforce the impact of that program. We will be establishing a new council of Inspectors General which will be a successor to the Executive Group to Combat Fraud and Waste. This council will more vigorously address issues such as vulnerability assessments, joint audit and investigations, audit follow-up including recoveries of sustained findings, and the adequacy of agency internal controls. We feel that the work of the individual Inspectors General, augmented by a vigorous interagency group, will ensure a concentrated attack on the types of problems raised in your draft report.

We want to continue to work closely with the General Accounting Office in identifying opportunities for reducing fraud and waste in Federal programs.

Sincerely,

Edwin L. Harper
Assistant to the President
and Deputy Director

Attachment

OFFICE OF MANAGEMENT AND BUDGET

Internal Control Circular; Proposed for Comment

AGENCY: Office of Management and Budget.

ACTION: Comment—Proposed OMB Circular, "Internal Control Systems."

SUMMARY: This notice offers interested parties an opportunity to comment on a proposed OMB Circular concerning internal control policies of Federal agencies.

The proposed Circular is the product of an interagency task force composed of representatives of major Federal agencies, under the leadership of the Office of Management and Budget. The Circular is intended to provide policy guidance to Federal agencies on the development, implementation, and review of internal controls against theft, fraud, waste, and misuse of resources.

The Office of Management and Budget has, as yet, made no decisions with respect to the provisions of the proposed Circular. All interested parties are encouraged to make their views known.

Comments should be submitted in duplicate to the Financial Management Branch, Budget Review Division, Office of Management and Budget, 6002 New Executive Office Building, Washington, D.C. 20503. All comments should be received within 45 days following publication of this notice. The proposed OMB Circular is set forth below in its entirety.

FOR FURTHER INFORMATION CONTACT: Mr. David J. Gribble, Financial Management Branch, telephone 202/395-4773.

TO OBTAIN A COPY OF THE PROPOSED CIRCULAR, CONTACT: Document Distribution Center, Office of Administration, G-236 New Executive Office Building, Washington, D.C. 20503, telephone 202/395-7332.

John J. Lordan,
Chief, Financial Management Branch.

Circular No. A—To the Heads of Executive Departments and Establishments

Subject: Internal Control Systems.

1. *Purpose.* This Circular prescribes policies and standards to be followed by executive agencies in adopting and maintaining internal control systems.

2. *Background.* Despite the efforts Federal agencies have made, there continue to be reports of numerous cases of theft, fraud, waste, and misuse of Government resources. Review of these cases consistently points to weaknesses in internal controls or to breakdowns in compliance with internal control systems. These systems need improvement to properly assist managers from the first line supervisor to the agency head in meeting their proper responsibility to safeguard resources—while efficiently and effectively conducting programs.

3. *Definitions.* For the purposes of this Circular, the following terms are defined:

a. *Agency*—Any department or independent establishment of the executive branch of the Federal Government.

b. *Agency Component*—A major organizational subdivision of the agency having a separate system of internal control.

c. *Internal Control*—The plan of organization, and all coordinate measures, adopted by an organization to safeguard resources, facilitate effective and efficient program management, assure compliance with law and policy guidance, and assure accurate, reliable and timely reports.

d. *Internal Control Directive*—A statement issued by an agency head to prescribe agency policies on internal control and to assign responsibilities. This document will guide the development, maintenance, and review of internal control systems.

e. *Internal Control System*—The overall plan of organization, procedures, and records of an organization prepared in compliance with agency's internal control directive.

f. *Internal Control Regulations*—Procedures, organization charts, instructions, manuals, etc., documenting the internal control system.

g. *Vulnerability Assessment and Risk Analysis*—A vulnerability assessment is a review of an agency component resulting in an estimate of susceptibility to theft, fraud, waste, or misuse of resources. A risk analysis is a more detailed evaluation intended to identify and measure the types of errors or problems that might affect a program or function. Its purpose is to determine the specific internal controls that are needed.

4. *Responsibility.* Each agency head will issue an internal control directive and submit it to OMB for approval no later than 180 days following the effective date of this Circular. In cases where an agency head requires the issuance of internal control regulations for components of the agency, the head of the agency shall ensure that such regulations are consistent with the agency directive.

Further, the agency head will ensure that vulnerability assessments and risk analyses are made for each agency component on a 5 year or shorter cycle.

Inspectors General or other audit officials will review internal control directives, systems, regulations, and compliance and provide advice to the agency head.

5. *Objectives of Internal Control.* The objectives of a system of internal control are to:

a. Safeguard resources against theft, fraud, waste, or misuse.

b. Facilitate accomplishment of Federal program objectives.

c. Assure compliance with laws, regulations, executive orders, and other legal requirements.

d. Assure compliance with policy and budget guidance from the President, the Congress, and agency management.

e. Assure the propriety of accounting records and the accuracy, timeliness, and usefulness of financial reports by

—preventing unauthorized financial transactions or access to resources.

—properly recording all financial transactions.

—providing means for the timely detection of losses and accounting errors.

6. *Requirements for Agency Internal Control Directive.* The agency internal control directive will place specific internal control responsibilities on managers and prescribe requirements for the comprehensive internal control systems that managers will use to carry out their responsibilities. The agency directive will provide for the following as a minimum:

a. Establish an internal control committee or other appropriate means to oversee development, maintenance, review, and improvement of the agency's internal controls. This group must provide for coordination between program managers and financial systems staffs so that financial systems serve managers' needs for decisionmaking, control, and review—while providing for adequate internal control.

b. Assign responsibility for internal control to officials in each major operating component of the agency.

c. Provide that internal control responsibility and standards of performance be incorporated in each appropriate official's performance appraisal.

d. Provide a plan for vulnerability assessments and coordinated risk analyses on a recurring cycle of not more than 5 years. These reviews should identify agency programs and functions where internal control systems need either to be strengthened or streamlined in response to changes in the nature of the program, the magnitude of the resources involved, or recent experience with theft, fraud, waste, and misuse of resources. These reviews should draw on audit reports and other sources. A vulnerability assessment and risk analysis should also be made for each planned and newly authorized agency program.

e. Provide that the agency's regulations provide for each of the elements of internal control described in paragraph 7.

f. Establish administrative mechanisms to enforce internal control requirements. These mechanisms should include reports to the agency head on all significant internal control violations, and appropriate disciplinary actions for responsible individuals.

g. Provide for periodic internal audit to determine effectiveness of control systems.

h. Establish response mechanisms to address internal control system weaknesses disclosed by audit, discovered loss, or other means.

7. *Common Elements of Internal Control.* Six generally accepted elements of internal control must be included in any system dealing with acquisition, use, or accountability of Federal resources. Such systems include, as a minimum, agency planning, budgeting, accounting, revenue, expenditure, property, inventory, cash management, debt management and related ADP systems. The design of each system should consider the entire transaction cycle. Where transactions cross organizational or functional lines or when more than one system is involved, integrated controls must be established.

a. *Documentation.* Internal control procedures, policies, authorities and responsibilities must be clearly and adequately documented. Once documented they must be available to personnel involved in their execution. Documentation usually takes the form of operations manuals and organization charts which describe and depict the roles and responsibilities of all individuals involved in the control system. Proper documentation provides assurance that methods and responsibilities are clearly communicated, and is often a valuable tool in training new employees.

Documentation must also be provided for all financial transactions and for the custody of all resources.

b. *Separation of Duties.* No individual or small group of individuals should be in a position to control all aspects of a financial transaction. Responsibilities must be separated and tasks structured to preclude an individual from performing more than one "key" processing function or activity—such as authorizing, approving, certifying, accounting, disbursing, or keeping custody of resources.

c. *Supervision.* Qualified and continuous supervision is necessary to assure agency management that approved procedures are followed both to facilitate effective, efficient program management and to safeguard the resources of the agency.

d. *Security of Property and Records.* Physical security must be provided for accounting records, negotiable instruments or securities, and other resources of the agency. Procedures should be employed to ensure that appropriate recordkeeping and archive procedures exist and are followed.

e. *Internal Audit.* An internal audit or review function must continuously monitor policies, procedures, and practices related to financial transactions and custody of resources. Where appropriate, reviews should include examining and testing of transactions. Also, procedures should exist to assure followup of audit findings and recommendations, and to assure timely corrective action by management.

f. *Competency of Personnel.* Personnel should be competent, by education, training and experience, to execute the control responsibility to which they are assigned.

8. *Special Internal Control Guidelines.* In addition to providing for the basic elements of internal control in the body of this Circular, guidelines on various special aspects of internal control will be issued separately by OMB. (See Attachment for list of guidelines.) Agency Regulations should be revised on a cycle basis to incorporate the substance of each guideline as appropriate.

9. *Reporting.* Agencies will be required to include specific information on the progress of internal control systems reviews as part of their annual report to OMB on financial management improvement.

10. *Effective Date.* This Circular is effective on publication.

11. *Inquiries.* All questions or inquiries should be addressed to Financial Management Branch, Office of Management and Budget, telephone number 202/395-4773.

James T. McIntyre

Director

Attachment—Circular No. A-

List of Guidelines

A. Fund Control
B. Cash Management and Handling
C. Debt Collection
D. Certifying and Disbursing
E. Automated Data Processing
F. Procurement
G. Grants.

[illegible]

BILLING CODE 3110-01-M

United States
Department of
Agriculture

Office of
Inspector
General

Washington,
D.C.
20250

FEB 2 5 1981

Mr. Henry Eschwege
Director, Community and Economic
Development Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have reviewed the GAO draft report entitled "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled" and have no comments.

Sincerely,

Robert E Magee
ROBERT E. MAGEE
Acting Inspector General

DEPARTMENT OF DEFENSE
OFFICE OF GENERAL COUNSEL
WASHINGTON, D.C. 20301

February 19, 1981

D.L. Scantlebury
Division Director and
Chief Accountant of GAO
United States General Accounting Office
Washington, DC 20548

Dear Mr. Scantlebury:

This is in reply to your letter of January 19, 1981 forwarding 16 copies of the draft report entitled "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled" (Code 911020) (OSD Case #5599). As there were no recommendations specifically directed to this department, no comments are being provided on the draft report.

Thank you for the opportunity to review and respond to the draft report.

M.J. Cifrino
Office of the Associate General Counsel
(Intelligence, International &
Investigative Programs)

DEPARTMENT OF HEALTH & HUMAN SERVICES
Office of Inspector General
Washington, D.C. 20201

10 FEB 1981

Mr. Gregory J. Ahart
Director, Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

Your report very aptly illustrates the seriousness and pervasiveness of this problem. We also very much agree with the emphasis placed by the report on the need for managers to place continuing and great emphasis on the quality of their systems of internal control.

Thank you for letting us review this report in draft form.

Sincerely yours,

Bryan B. Mitchell
Bryan B. Mitchell
Acting Inspector General

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20410

FEB 25 1981

February 24, 1981

IN REPLY REFER TO:

Mr. Henry Eschwege
Director
Community and Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have read with interest your draft report, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled." We believe the report points out the problems and ramifications associated with fraud and program abuse in government operations. In general, we support the conclusions and recommendations made in the report. However, we do have comments for your consideration that we believe will strengthen the recommendations and clarify other sections of the report.

The report concludes that Congress can help deter fraud by making agency heads more accountable for good internal controls. This would be done through currently pending legislation; S-3026, the Financial Integrity Act, and HR-8063, the Federal Managers' Accountability Act of 1980. Within the past year, we have commented favorably on these bills. However, there are two issues that we wish to address concerning the report--our reservations concerning legislative solutions and a need to update certain portions of the report.

First, GAO's recommendations seek legislative remedies and focus only on financial control. Agency heads have been responsible for three decades for the soundness of their financial systems. Defining that responsibility more clearly still does not give these executives the incentives to reverse the current adverse trends. Further legislative initiatives will not produce the intended results until management's concern for controls is commensurate with its concern for production goals.

In this regard, it is our opinion that:

A. The report should clarify the existing laws and directives regarding internal controls. A discussion is needed to bring to light the piecemeal and overlapping actions being taken by Congress, OMB and Federal agencies, and how these proposed bills might correct these problems. The following could be cited:

- Public Law 96-304 requires OIG to submit to Congress (starting with the HUD 1982 budget) an annual evaluation of the Department's progress in implementing effective management controls over consultant service contractual arrangements.
- OMB's July 1980 directive for agencies to develop a plan for implementing improved controls for procurement practices.

- OMB proposed circular, "Internal Control Systems," which is intended to provide policy guidance to agencies regarding controls.

- The Accounting and Auditing Act of 1950.

A discussion of these and other laws should reconcile the present requirements regarding controls and how the pending legislation would correct cited problems.

B. Even with the pending bills, there will be no guarantee that managers would have the full capacity to carry out the new laws. As the GAO itself notes on page 52, the implementation of the Inspector General Act has suffered from inadequate resources. These bills will have little impact unless the Administration and Congress attend to the resource issue; and

C. Since the report supports legislation that positively affects fraud control, it should also point out a pending bill having adverse effects. Specifically, certain provisions of the working draft, "Criminal Code Revision Act of 1979" would severely impair the Department's ability to prosecute and deter fraudulent practices. Our comments objecting to certain provisions of the draft are attached for your consideration.

Our second concern is that the draft could be updated in Chapter 5, "Progress is Being Made in Combating Fraud." A number of initiatives taken by this Department and the Office of Inspector General include:

- HUD's Committee on Fraud, Waste and Mismanagement that advises the Secretary on policy matters in minimizing fraud and abuse in HUD programs. Formed in November 1978, the Committee has proven successful in completing several important projects.

- The Fraud Vulnerability Assessment System, implemented in November 1979, designed to shut off opportunities for fraud and abuse in all new or substantially revised HUD programs.

- The Management Control Assessment System, started in July 1980, to evaluate the controls in HUD's existing programs on a continuing and systematic basis.

- An employee awareness program to alert OIG and program personnel to potential risks by preparing Fraud Information Bulletins and Fraud Alert Memorandums issued to all appropriate employees, training courses attended by 100 OIG and program staff, and a video tape presentation for all HUD employees.

These and other activities are detailed in the attached excerpts from our latest Semiannual Report to Congress.

We appreciate the opportunity to comment on the draft report.

Sincerely,

Paul A Adams

Paul A. Adams
Deputy Inspector General

Attachments

U.S. Department of Justice

Washington, D.C. 20530

March 9, 1981

Mr. William J. Anderson
Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This letter is in response to your request to the Attorney General for the comments of the Department of Justice (Department) on your draft report entitled "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

In many respects this report, more clearly than other General Accounting Office (GAO) reports, reflects a balanced understanding of the government actions required to effectively respond to the problem of fraud and abuse in Federal programs. That is, the problem can only be addressed through the coordinated employment of all available corrective remedies--civil suits, administrative actions, program adjustments and criminal prosecution. In terms of the need to employ these corrective remedies, GAO's contention is indeed true that fraud and related illegal activities "not only deplete the treasury but also undermine the image of government to the people it serves and the effectiveness of its programs." We would like to add a further observation that the failure to promptly and properly address fraud and waste also tends to undermine employee confidence and consequently reduces their effectiveness in controlling and administering Federal programs.

The Department is basically in agreement with the findings, conclusions, and recommendations contained in the report. The report makes some favorable and accurate comments about the Department's efforts, but focuses primarily on the efforts of other agencies. For this reason, the comments contained in this response elaborate on some of the Department's more recent efforts, as well as point out several inaccuracies and omissions.

Since the subject matter of this report encompasses the activities of several organizations within Justice which have a role in combatting fraud and related illegal activities, the comments of each organization are set out separately.

CRIMINAL DIVISION

The Criminal Division agrees with the rationale of the report that all available corrective remedies--civil suits, administrative actions, program adjustments and criminal prosecution--should be considered in addressing the problem of fraud and abuse in Federal programs. Over the past year, the Criminal Division has increased its emphasis on promptly identifying investigations and prosecutions with substantial civil remedy potential. The "joint VA/HUD investigations and audits of mortgage practices in Puerto Rico" mentioned on page 41 of the report is a current example of such increased attention. The Criminal Division has worked closely with the Inspectors General and Department of Defense representatives in examining the effectiveness of various administrative remedies and encouraging their use even during the course of a criminal investigation. Over 2 years ago, the Criminal Division recognized that other remedies, in addition to prosecution and civil suit, were desirable for handling smaller fraud and false claims matters. In fact, the idea emanated from the initiative of the then Inspector General of the Department of Health, Education and Welfare as reflected in H.R. 4106 (page 38). For the past 2 years, the Criminal Division, together with the Civil Division, has been developing legislation to create a civil money penalty remedy to address these serious areas of program fraud and abuse.

The following minor comments are offered to improve the accuracy of that portion of the report pertaining to the Criminal Division:

1. Discussion of the civil money penalty remedy on pages v and 38 of the draft report does not specify the types of cases contemplated (under $50,000), and, of course, will not operate where the Department of Justice "refuses" to initiate civil or criminal action, but rather where the action is declined in favor of this remedy. Most importantly, the remedy is contemplated to be a substitute for the civil process, but in no way is intended to replace a criminal prosecution, if appropriate. If enacted, a matter could be the subject of criminal prosecution and administrative penalty action just as at present criminal and civil actions can be applied to the same matter.

2. With respect to the Economic Crime Enforcement program mentioned on page 43, units presently exist in 21 districts. The current total of attorney allotment, including both specialists and Assistant U.S. Attorneys, is 109. Due to current budgetary constraints, no immediate growth is possible.

3. The report is complimentary of the increased training efforts of the Criminal Division, but neglects to mention a major ongoing effort. For the past 2 years, the Federal Law Enforcement Training Center in Glynco, Georgia, has conducted a 2-week White Collar Crime Seminar for experienced investigators and auditors. The Criminal Division is responsible for 12 hours of the instruction conducted by senior prosecutors. Over 1,100 investigators and auditors have attended this program to date.

4. GAO's discussion of the Department's national white collar crime law enforcement priorities on page 30 indicates a misunderstanding of the meaning and impact of the priorities initiative. In particular, the statement, "It appears that at least a quarter of the total prosecuted cases in our review might not have been prosecuted had the new guidelines been in effect" is troubling. The clear implication of this and the sentence following is that the national priority guidelines are intended to be, or will be treated as, declination guidelines by Federal prosecutors.

That is not accurate. The Department has emphasized to Federal prosecutors and Federal investigators that the white collar crime priorities describe the types and magnitude of cases that should receive special attention, that priority cases may be very few in number, and that cases which may not fall strictly within the priority specifications may nevertheless be very important (see, e.g., Report of the Attorney General, "National Priorities for the Investigation and Prosecution of White Collar Crime," August 1980, page 48). Indeed, U.S. Attorneys have been cautioned repeatedly that the national and district priorities should not be used or interpreted as declination guidelines.

GAO should also be aware that as U.S. Attorneys define their respective district white collar crime priorities, they may, with the Department's approval, deviate somewhat from the national priority definitions. Thus, for example, while Federal program fraud schemes not involving corruption, with losses of $25,000 or more, are national priorities, in a particular Federal district, the U.S. Attorney may declare similar offenses involving $10,000 or more in losses a district priority. Predicting the precise effect of the national and district priorities initiative on the types of cases accepted or declined for prosecution is, therefore, not possible.

In offering the above comments on white collar crime, it is important to understand that the Criminal Division does not quarrel with the draft report's general conclusions on page 30 that (1) the priorities initiative will probably mean that the Department will prosecute fewer noncorruption, small dollar fraud cases in the future, and (2) the Department's attempt to focus criminal prosecutive resources on the larger program fraud cases makes it even more important for agencies to take effective administrative action against those who defraud their programs. The Department simply wants to make the point very clear that the white collar crime priorities are not intended to be, and will not be, employed as guidelines for declining cases.

CIVIL DIVISION

The Civil Division agrees in general with the conclusions and recommendations included on pages iv to vi of the draft report. However, there are several misleading statements and omissions within the report deserving comment which would improve its accuracy.

On page 28, the report concludes "Justice attorneys generally give no consideration or untimely consideration to possible civil remedies, . . ." This statement ignores the fact that an entire branch of the Civil Division is currently involved in civil fraud litigation. Even during the period of GAO's audit, approximately 20 Department attorneys were responsible for this work, in addition to the numerous Assistant United States Attorneys who concentrate on civil litigation. During the period covered by the audit, some Department attorneys may have failed to consider civil remedies at the most advantageous time, but certainly all Justice Department attorneys cannot be charged with failure to act, and this area is receiving extensive treatment as discussed later in the Civil Division's comments.

The same erroneous conclusion is restated on page 32 as "Justice Usually Does Not Pursue Civil Remedies." Apparently, this conclusion is supported by the statement on page 32 that only 28 civil actions were filed out of 393 fraud referrals by agencies. The report fails to recognize that most fraud cases are referred to the Department by the Federal Bureau of Investigation (FBI) and not by agencies. Approximately 5,000 reports of potential fraud are referred to the Civil Division each year. During the 2 1/2 year period studied by the GAO, only 685 referrals contained enough evidence of a monetary loss to justify assignment to a Division attorney for further review. Many of these matters were later closed because additional evidence demonstrated that the government suffered no monetary loss, the case lacked a solvent defendant, adequate administrative sanctions existed, or the cases were plagued by material legal insufficiencies. Approximately 70 new fraud cases were filed by Civil Division attorneys during the period under study; most involved large monetary amounts. United States Attorneys' offices filed additional cases. The current rate of case filings is nearly double the rate during the study period. Because fraud cases take several years to process through the courts, hundreds of active court cases are handled at any one time by the Civil Division.

The report is correct in stating on page 33 that the Justice Department recognizes the need to coordinate civil and criminal fraud actions. However, the report is incorrect in stating that "little progress has been made in implementing these policies." In view of the almost 2 years that have passed since the period of the GAO study, it seem appropriate to comment on recent developments in civil and criminal coordination of fraud cases.

Recognizing that the investigators and auditors who develop the evidence necessary to bring a civil or a criminal action are key factors, Justice Civil Division attorneys have been presenting two to four seminars per month for agency personnel for more than a year. Most often, these seminars are given in connection with presentations by Justice criminal attorneys. An in-depth course for United States Attorney personnel will be given this March. In addition, every recent meeting of United States Attorneys has included some discussion of civil fraud litigation. Recently, the Chiefs of various Civil Divisions of United States Attorneys' offices exchanged plans for the coordination of civil and criminal fraud cases. These plans, many of which are now functioning, involve early consideration of civil remedies.

Other Justice Department training efforts have been extensive. Apart from addressing United States Attorney personnel and investigators from individual agencies, seminars have been given for agency counsel, for Inspectors General personnel, for local government groups, and for Justice Department personnel. A civil fraud course is to be added to the Law Enforcement Training Center's seminar on white collar crime. Moreover, various written materials on civil fraud have been provided to numerous agencies, and the Civil Division publishes its own manuals for the use of its attorneys and the United States Attorneys' offices. These efforts should amply demonstrate that the statement at page 33 that "the Department has not emphasized the civil aspects of fraud cases" is clearly incorrect.

Although not every case warrants simultaneous criminal and civil prosecution, cases are so handled when it is advantageous to the government. For example, United States v. McDonnell Douglas Corporation, No. 80-2714, D.D.C., which involves allegations of secret overseas payments, was filed before a criminal trial was conducted. In another case, United States v. Transport Tire, No. 80-1266, D. Idaho, not only did the Civil Division, in advance of criminal trial, file a suit to recover damages for fraud in connection with the sale of subgrade tires to the government, but simultaneous administrative action was taken to withhold contract payments and suspend the contractor.

In some cases, successful civil suits will follow unsuccessful criminal actions, as in United States v. Hangar One, Inc., CA 74-P-646-S, N.D. Ala., or a criminal indictment will follow a successful civil action, as in United States v. Harry M. Borcheding, and the Institute of Computer Technology, Civil Action No. 5-71231, E.D. Mich. As indicated, coordination of administrative actions and judicial proceedings is an important area which is not ignored. Prompt referral to the Justice Department by agencies can result in avoiding payment on the false claim, which is certainly the most economical way to proceed. For example, in United States v. Medico Industries, Inc., No. 80-C-6434, N.D. Ill., the Civil Division filed suit to declare the unpaid administrative claim of the defendant unenforceable because of a conflict of interest. Similar coordinated judicial and administrative efforts are encouraged by the Contract Disputes Act of 1978, which provides for penalties for the submission of false claims even if the Government ultimately suffers no loss. In other words, the facts of each case will dictate whether criminal, civil or administrative remedies are most appropriate and in which order.

On page 39, the report suggests that Congress enact legislation to allow agencies to assess civil money penalties against persons who defraud Federal programs. The report is correct in noting that the Department has proposed such legislation to OMB,[1] but other congressional action could assist the government in its attempts to recover the damages caused by fraud. Congress could enact legislation to allow the setoff of debts owed the government against all types of credits due from the government. For example, an employee's salary cannot be offset against an employee's general debts to the government. 58 Comp. Gen. 501 (1970). In this regard, page 7 of the report indicates employees are responsible for 30 percent of fraud cases. Although common law allows the setoff of retirement funds, statutory provisions would greatly simplify this process.

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[1] The report incorrectly states that administrative remedies may be approved only after criminal or civil declination. The proposed administrative remedies may be appropriate even when there is a criminal prosecution. The bill only requires Attorney General approval before administrative proceedings involving a fraud case or class of cases go forward.

Statutory restrictions on access to tax return information make the offset of tax refunds virtually impossible. Legislation allowing access to tax information and specifically authorizing the offset of tax refunds would be useful.

On page 43, the report notes that a Civil Division reorganization has improved anti-fraud activities. Specifically, more civil attorneys are handling fraud cases and the number of persons screening incoming reports on fraud has quadrupled. This has resulted in the elimination of a backlog in reviewing reports for closing or assignment to attorneys.

On page 45, the report notes that: "The Department is exercising leadership in supporting the Executive Group to Combat Fraud and Waste in the Government." The Civil Division regularly attends meetings of this Group in order to better coordinate its efforts with the Inspectors General. In addition, Civil Division attorneys meet with Inspectors General's counsel monthly. These formal activities are in addition to continual ad hoc discussions and coordination efforts.

From the chart on page 9, it appears that over 70 percent of the cases discussed in the report involve very small monetary amounts. Assuming a suit was legally tenable in each case and that a defendant could be found (this is unlikely in most theft cases), several times the amount of potential recovery would be spent in prosecuting the case. This would result in a high net loss to the government.2/ The resources of the Civil Division and of the United States Attorneys' offices are best spent in pursuing recoveries where large amounts of money are at stake.3/ For example, following a criminal conviction in a case of fraudulently misgraded shrimp, a few weeks of attorney time resulted in a $1,000,000 recovery. Several million dollars have been recovered as a result of Civil Division follow-up of an Agriculture Department investigation of shortweighing and misgrading of grain at certain grain elevators. It is interesting to note that the first page of the report cites the case of a Federal transportation clerk who embezzled $856,000. A fraud judgment and subsequent collection efforts resulted in recoveries of almost $600,000.4/ Obviously, these types of cases can take enormous amounts of time and effort, but the recoveries justify the expenditures.

2/ These cases are largely of the type which the report describes as individual frauds involving the Social Security Administration and Agriculture food stamp programs, or thefts of government property from the Postal Service, Army and Navy. The chart on page 7 also indicates the wrongdoers are unknown in 30 percent of the cases, a factor which obviously makes any judicial action impossible.

3/ On page 30, the report seems to recognize this in its discussion of the white collar crime priorities which are concerned with monetary losses.

4/ United States v. Seibert, Civil No. 77-1391 (D.D.C.).

Procurement contracts are often the source of the largest civil claims. These cases make up a small portion of the number of cases which flow through the Department of Justice, but their monetary impact is enormous. These cases were not specifically dicussed in the report. Departmental efforts to strengthen the False Claims Act, which is discussed on page 32 of the report, have failed thus far, in large part because of the potential effect of these suggested amendments on procurement contracts.

Overall, the report contains the following conclusions with which we agree: First, costly civil litigation is not the best way to recover every debt resulting from fraud. Second, even administrative remedies cannot solve the problem in all cases. Third, program control is the answer to a great part of the problem. We support the concept of legislation creating enforceable administrative sanctions for fraudulent acts, and for creating a system of manageable and effective program controls as a preventive measure.

LAW ENFORCEMENT ASSISTANCE ADMINISTRATION (LEAA)

LEAA generally agrees with those portions of the report pertaining to their activities and offers the comments noted below.

The chart on page 7 showing "Who Committed Fraud?" tends to be misleading. This chart was prepared from agencies' records of identified fraud cases. One would expect a higher detection rate for Federal employees (and unknowns) simply because this is the readily available "tip of the iceberg" located at the Federal level. Consequently, the report tends to give the impression that most fraud is committed by Federal employees. From all indications, the extent of fraud and abuse in Federally funded programs at the recipient level is much greater than that committed by Federal employees. The chart on page 11 may be misleading for essentially the same reason.

The example on page 5 involving an embezzlement of $16,000 in LEAA grant funds gives the reader the impression that LEAA administratively established a repayment schedule which would take the individual 65 years to repay the full amount of the embezzlement. It should be made clear in the final report that the repayment schedule was directed by the Office of the Probation Officer, United States District Court for the District of Columbia, and was not administratively determined by LEAA.

LEAA fully supports the GAO theme "Fraud and Related Illegal Acts: A Serious Problem Which Can Be More Effectively Controlled." In this regard, the Office of Audit and Investigation, Office of Justice Assistance, Research and Statistics (OJARS) hosted a 3-day workshop on the subject of "Prevention and Detection of Fraud, Waste and Abuse of Public Funds" on November 14, 15 and 16, 1979, at the Department of Justice, Washington, D.C. The workshop evolved as a response to a need for information on current anti-fraud activities of Federal, State and local officials and by the private sector. Thus, persons with experience in, or job responsibility related to, the prevention and detection of fraud, waste and abuse of public funds were invited to participate in the workshop to identify and discuss: (1) problems and needs in prevention and detection, (2) prevention and detection activities considered most effective in combatting fraud, waste and abuse of public funds, and (3) types of activities which could be developed and implemented for the greatest impact on a national fraud, waste and abuse effort. Also discussed were the various processes that Federal Inspectors General and the Office of Management and Budget are currently using to perform vulnerability studies or risk analyses of their department's respective programs. The purpose of the discussions was to determine whether these types of processes could be utilized by State and local officials to analyze their programs/responsibilities and reduce the potential for fraud, waste and abuse.

The workshop participants included 26 State officials representing 17 States, 13 city or county officials representing 12 local governments, 12 Federal officials (United States Attorneys, representatives from various Federal Inspectors General offices, and Department of Justice personnel), and 9 nongovernment researchers, educators, etc. In addition, staff from two committees of the Congress of the United States attended.

Also, during the past several years, the National Institute of Justice has supported several research efforts to examine the nature of public corruption, and fraud, waste and abuse in government benefit programs. Two recent efforts have included the development of a resource training package, entitled "Managing Municipal Integrity," which is based on the Institute's program model on Prevention, Detection and Correction of Corruption in State and Local Government, and a monograph on the importance of a prevention approach in reducing fraud. Finally, the Office of Research Programs is currently funding an examination of the nature and extent of fraud and abuse in the food stamp and medicaid programs, and the most effective strategies and mechanisms for controlling fraud and abuse.

In our judgment, enactment of legislation as suggested in the report should serve as a deterrent and result in control systems being subjected to closer scrutiny, but such legislation should not be regarded as a panacea in the government's efforts to reduce fraud, abuse, and waste of public funds. More needs to be done at all levels of government.

FEDERAL BUREAU OF INVESTIGATION

The FBI agrees with GAO that stronger systems of control are needed to protect programs from fraud and effective punitive actions should be taken against those who commit fraud. Since the establishment of the Offices of Inspector General (OIG), the FBI has strongly advocated that maximum impact upon fraud, waste and abuse in government programs and operations would require the OIG role to be primarily oriented toward detection and prevention functions. As the OIG role developed, the FBI was disillusioned to see increased emphasis being placed on criminal investigations rather than detection and prevention. The FBI views as a positive sign the fact that GAO, through its own independent research, has reached the same conclusion as the FBI that ". . . agencies should emphasize fraud prevention, rather than simply chasing after it once it occurs. . . ."

The report also points out the need for better trained personnel to deal with fraud and abuse and refers to the FBI's enhancement of its Special Agent Training Course in the program fraud area. We believe it is equally important to mention the ongoing FBI-sponsored training program offered OIG personnel at the FBI Academy, Quantico, Virginia.

EXECUTIVE OFFICE FOR U.S. ATTORNEYS (EOUSA)

The EOUSA considers those portions of the report pertaining to U.S. Attorneys' activities to be generally fair and accurate. The report makes reference to a number of Departmental efforts to upgrade Federal anti-fraud activities and notes a number of actions in progress to improve central coordination and direction of anti-fraud activities within Justice and with other agencies.

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In terms of the overall message conveyed in the report, the Department agrees that the cost of fraud and related illegal activities is substantial. We also agree that the prevention of fraud and related acts through effective systems of internal control should be a top priority and the Department plans to continue pursuit of this objective in its working relationships with other departments and agencies.

We appreciate the opportunity to comment on the draft report. Should you desire any additional information, please feel free to contact us.

Sincerely,

for [illegible], Acting.

Kevin D. Rooney
Assistant Attorney General
for Administration

U. S. Department of Labor
Inspector General

MAR 02 1981

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Ahart:

This is in reply to your letter to the Secretary requesting comments on the draft GAO report entitled, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

The Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,

Frank A. Yeager
Acting Deputy
Inspector General

Enclosure

U.S. Department of Labor's Response To
The Draft General Accounting Office Report
Entitled---

"Fraud and Related Illegal Acts: A Serious
Governmental Problem Which Can Be More
Effectively Controlled."

Comments:

The Department concurs with GAO's findings that internal controls in Government operations need to be better examined, evaluated, strengthened, and enforced. The Department is greatly emphasizing the assessment and enhancement of fraud and abuse controls and their implementation. The Office of Inspector General is engaged in a number of comprehensive studies to identify internal control weaknesses in selected program areas and to recommend remedial countermeasures to Department management. In addition, a number of loss control initiatives are being undertaken in specific DOL agencies. For example, the Employment Standards Administration (ESA) has recently formed a Loss Prevention Task Force and is also engaged in loss vulnerability projects in select ESA program areas.

The Department notes that GAO recommends enactment of proposed legislation requiring greater accountability by agency heads for the effectiveness of their organizations' internal control systems. We agree with the report that more encouragement must be provided for top management to establish and maintain effective fraud and abuse control systems and, thus we concur with the spirit and basic intent of the legislation.

The pending bills would require agency heads to undertake annual evaluations of their organizations' internal accounting and administrative control systems and certify the adequacy of such systems to the Congress and the President. Any weakness that prevents the agency head from expressing an unqualified opinion must be identified and a detailed plan and schedule described for remedying those weaknesses.

The GAO draft report observes that enforcing fraud and abuse controls is frequently not a primary concern of program managers, who are usually rated on the services they are responsible for delivering. Further, managers often believe that fraud control should be the concern of investigators and auditors.

In order to encourage program managers to have effective fraud and abuse prevention and detection controls in their operations, they should be rated and judged and rewarded or penalized according to the success or failure of their efforts. In order to be held strictly accountable, however, the requisite tools must be made available for their use.

The examination, evaluation, design, and testing of financial, administrative, and ADP internal controls requires specialized staff resources; the detection, assessment and resolution of fraud and abuse activity also requires special skills. Staff expertise in this area will very likely, be inadequate to undertake such analyses.

The Department also strongly supports GAO's endorsement of the concept of allowing agencies to levy civil money penalties. Such authority, if properly and equitably administered, would serve as a strong deterrent to fraud activity. The Department's Office of Inspector General is in full agreement with the intent of the "Program Fraud Civil Penalties Act" proposed by the Department of Justice, and has given active support to this legislation.

Additional Comments:

The Department notes that, over the past few years, GAO has issued a substantial number of reports dealing with Federal fraud and abuse problems, relationships between fraud and abuse and internal controls, the need for improved internal controls, and the need to do more in combating fraud, waste and abuse. In our view, these analyses have been valuable in assisting agencies identify problem areas and evaluate recommended corrective action.

However, the Department believes that, in addition to the attention given to problem identification, what is most needed now is the development of effective means to control waste, fraud, and abuse. The Government needs to know what techniques work, how specific loss prevention models can be designed and implemented, what specific management initiatives can be undertaken to insure compliance with internal controls and other loss control measures, how loss prevention efforts can be evaluated, etc. The Department suggests that the GAO is in a unique position to undertake a number of projects on a Government-wide basis which could make substantive contributions to effectively control waste, fraud, and abuse related losses. For example GAO is in an ideal postion:

- to serve as a Federal clearing house for the identification and evaluation of innovative fraud and abuse control applications at all levels of government and in the private sector;

- to evaluate fraud and abuse control organizations and procedures and design and recommend a composite model for Government-wide replication;

- to design and recommend model ADP detection and front-end prevention applications for various information processing systems including Federal benefit payment operations;

- to develop standardized Government-wide criteria for quantitative evaluative measures of investigative, audit, systems analysis, and related fraud control capabilities; to design and recommend uniform methods to assess savings, cost avoidance, prevention, deterrence, and overall asset protection effectiveness; and

- to design and recommend model eligibility screening and verification systems for various categories of Government service programs.

The above suggestions are, examples of valuable projects that could effectively be undertaken by GAO's centralized program, in joint efforts with relevant Departments, to contribute to Government-wide fraud, waste, and abuse control. We understand that GAO plans to address a number of these issues, and are confident that the results of such programs will significantly assist our Department. We would be pleased to contribute, in any appropriate manner, to the success of these efforts.

U.S. Department of Transportation
Office of the Secretary of Transportation

Assistant Secretary
for Administration

400 Seventh Street S.W.
Washington D.C. 20590

February 27, 1981

Mr. Henry Eschwege
Director, Community and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is our reply to the General Accounting Office (GAO) draft report, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled," dated January 27, 1981.

We have reviewed the report and, of course, agree with its intent that fraud and illegal acts must be controlled and their occurrences must be brought to a minimum. However, we are not sure this report offers anything new in the form of detection and prevention. In September 1978, the GAO reported formally on fraud detection activities in seven Federal agencies. The initial report was sufficient, pointing out the deficiencies uncovered and their seriousness. In addition, financial implications were recognized, and the effect on public confidence in Government employees and the integrity of Government processes were treated with understanding.

We believe, however, that this most recent report, which is based on a projection of sampled statistics, oversimplifies the solution to combatting fraud. In our opinion, to claim that sound internal control systems are the answer generally to all fraud and illegal activities is less than complete and correct. The solution appears to ignore the human behavior factor involved in fraudulent activity. Secondly, the report recommends to the Congress that legislation be enacted to require heads of Federal agencies to certify annually to the effectiveness of their internal control systems. It is our view that additional internal control legislation is not needed since the Budget and Accounting Acts of 1921 and 1950 already cover this requirement. Also, the Inspector General Act of 1978 added strength to agencies' control over fraud and illegal acts.

We will be happy to discuss these matters with you or your representatives.

Sincerely,

Robert L. Fairman

Robert L. Fairman
Acting

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

FEB 13 1981

Dear Mr. Anderson:

This is in response to your request dated January 19, 1981, that the Department of the Treasury review the proposed GAO report to the Congress entitled: "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled." We have reviewed the report with interest and wish to provide a comment with respect to the observations made in Chapter 5 regarding training programs.

Treasury is the lead agency in the Executive Branch for administering the Federal Law Enforcement Training Center in Glynco, Georgia. Since December 1978, the Center, in concert with a number of Federal organizations, has sponsored a two-week seminar on white collar crime activity. This program was developed specifically for experienced investigators, auditors and other personnel actively engaged in combating fraud, waste and abuse in government programs. To date over 1,100 personnel from more than 50 organizations have graduated from this program.

The Department regards this program as one of the most important efforts being made on a continuing large-scale basis in the Federal government to improve the effectiveness of personnel in detecting, investigating and prosecuting sophisticated financial crime matters. Therefore, we urge that consideration be given by GAO to including a statement about the Center's program in its final report to the Congress.

Sincerely yours,

John P. Simpson
Acting Assistant Secretary
(Enforcement and Operations)

Mr. William J. Anderson
Director
General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

General
Services
Administration

Office of
Human Resources
and Organization

Washington, DC 20405

13 FEB 1981

FEB 17 1981

Mr. D. L. Scantlebury
Division Director and Chief Accountant of GAO
Accounting and Financial Management Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Scantlebury:

Thank you for the opportunity to comment on the draft General Accounting Office report, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

We have reviewed the report and find that it presents a comprehensive analysis of the problem. We concur with the recommendations to the Congress.

Sincerely,

W. M. PAZ
Assistant Administrator
for Human Resources and Organization

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

FEB 20 1981

Mr. Henry Eschwege
Director
Community and Economic Development
  Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter of January 27, 1981, requesting this Agency's comments on your draft report entitled, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

We have reviewed the report with interest and we in general agree with its content and, therefore, we do not have any substantive comments to make.

Sincerely,

Roger H. Jones
Acting Administrator

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

27 FEB 1981

OFFICE OF
PLANNING AND MANAGEMENT

Mr. Henry Eschwege
Director, Community & Economic
Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

The Environmental Protection Agency (EPA) has reviewed the General Accounting Office (GAO) draft report entitled "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

We concur with the general thrust of the report that fraud and other illegal activities are a costly and widespread problem, and that improvements in internal control systems are needed to prevent such problems.

EPA agrees with GAO that good systems of internal controls would prevent much of the fraud and other problems, or would at least result in quicker detection. We also recognize that EPA should emphasize fraud prevention rather than reacting to it once it occurs. In this regard, the Inspector General, in October 1980, established "Project Look" whereby a team composed of auditors, investigators and engineers reviews selected construction grant projects to look for indicators of fraud, abuse, waste and mismanagement.

Similarly in January 1981, the Office of Inspector General established the Vulnerability Assessment Task Force, comprised of audit and investigative staff to facilitate proper coordination and leadership in implementing an effective program to detect and prevent fraud, mismanagement, waste and abuse. As part of the Task Force's overall responsibility, it is in the process of developing a program to assess the vulnerability of EPA programs and operations to such problems.

We appreciate the opportunity to comment on the report's content prior to the report's issuance.

Sincerely,

C. William Carter

for Roy N. Gamse
Acting Assistant Administrator
for Planning and Management

THE POSTMASTER GENERAL
Washington, DC 20260

March 17, 1981

Dear Mr. Anderson:

Thank you for the opportunity to comment on your draft report entitled, "Fraud and Related Illegal Acts: A Serious Governmental Problem Which Can Be More Effectively Controlled."

The report indicates that the mail service cases included in your study consisted primarily of the theft of registered and insured mail, and that such cases are included in the report's definition of fraud and in its statistical tabulations. The report also indicates that most losses due to fraud go undetected and that controls to prevent fraud are often inadequate, non-existent or ignored by agency officials.

These generalizations about detectability and controls are not applicable to thefts of registered and insured mail.

An indemnity is paid for loss or damage of registered and insured mail and a record is kept of each piece registered and insured. The indemnity feature makes it very unlikely that a loss of registered or insured mail will go unreported to the Postal Service. Reports of losses are analyzed on a continuing basis to detect patterns that suggest theft. Where such patterns emerge, they are thoroughly investigated. Accordingly, we do not think that most losses arising from the theft of registered or insured mail go undetected.

Controls to prevent the theft of registered and insured mail are elaborate and have full support from postal officials.

The Postal Service conducts a criminal history background check on all new employees and they must attend orientation sessions on the sanctity of the mail. We also have programs of containerization, hand to hand receipts for valuable mail, vehicle sealing, accountability escorts, and uniformed security police officers, all directed towards preventing thefts.

In fiscal year 1980, the number of claims paid by the Postal Service for the loss of insured articles represented approximately 0.2% of all insured articles mailed; the number of claims paid for the loss of registered articles represented approximately .0025% of all registered articles mailed. It should be noted that these are claimed losses from all causes, not just theft. Numerous losses of insured, registered and ordinary mail are due to fires, airplane accidents, natural disasters and the like.

The fact that we have such a low loss rate from all causes, including theft, indicates that our controls are effective. Our experience supports your view that proper controls can help prevent theft.

Sincerely,

William F. Bolger

Mr. William J. Anderson
Director, General Government
Division
U.S. General Accounting Office
Washington, D.C. 20548

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(911020)

Do Federal Employees Face Reprisal for Reporting Fraud, Waste, or Mismanagement?

PRELIMINARY REPORT

A Report of MSPB

The Office of Merit Systems Review and Studies

April 1981

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THE MSPB SPECIAL STUDY OF REPRISAL

EXECUTIVE SUMMARY

Background. One of the cornerstones of the Civil Service Reform Act of 1978 (CSRA) was the belief that whistleblowers can play a legitimate role in ensuring the integrity and efficiency of the Government, and that the protection of whistleblowers was "essential to the improvement of the public service."* Thus, for the first time, that law gave statutory protections to Federal employees who disclose illegal or wasteful activities. The intent of these provisions was not simply to protect employees who make disclosures, but more fundamentally and indirectly to "foster Government efficiency by bringing problems to the attention of officials who could solve them."*

Thus the authors of the whistleblower provisions suggested that the success of the legislation should be judged **not** in terms of the numbers of employees who go outside their chain of command to report fraud or waste or seek protection from reprisal, but by the number of employees who are persuaded to bring problems to the attention of their own management and have no need to go any further. According to this view, the major benefit of the legislation would be to create a climate where employees feel secure in bringing problems to the attention of their supervisors, and supervisors have a strong incentive to deal with those problems constructively at the local level.

The Merit Systems Protection Board was also established under the CSRA to perform a number of functions including the conduct of special studies to determine if a civil service free of prohibited personnel practices is being maintained. The Office of Merit Systems Review and Studies has responsibility for conducting the studies. This report is the preliminary product of one such study which seeks to shed some light on "whistleblowing" and the reprisals that are sometimes taken against whistleblowers. A full and final report is scheduled to be issued approximately June 1981.

Purpose. The purpose of this survey was to assess the extent of employees' awareness of illegal or wasteful activities during the past year, then trace what those employees did (or failed to do) with that information, and what, if anything, resulted. The survey was also intended to explore the views of Federal employees on important issues related to whistleblowing. The survey was **not** intended to measure the extent of fraud, waste, or mismanagement in government, although the observations of employees shed considerable light on the nature and extent of these problems.

The survey is based entirely on the self-reported experiences of Federal employees, and may therefore be expected to reflect a certain degree of misperception of observed events, incomplete understanding of facts, one-sided view-points, and self-serving recollections. However, based on the size of the sample, the clear-cut nature of the trends, the consistency of the findings, and a careful reading of hundreds of narrative accounts, the Office of Merit Systems Review and Studies is inclined to give substantial weight to these survey results. Moreover, the question of subjectivity or objectivity of these results appears largely irrelevant, since the beliefs of employees, as reported in this survey, may ultimately influence their actions, regardless of the truth or falsity of those beliefs.

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* Testimony of Alan K. Campbell, Director of the Office of Personnel Management before the Subcommittee on Post Office and Civil Service, House of Representatives, March 12, 1980.

The Office of Merit Systems Review and Studies believes this is the first time a study of reprisal has been conducted on a large-scale, random sample of employees in any organization, certainly the first time within the Federal government. By basing the study on a random sample of employees (rather than on whistleblowers or reprisal victims only), the study is able to assess for the first time:

- The amount of illegal or wasteful activity which is observed by employees but not reported.
- The full range of outcomes in those instances which **are** reported.
- The attitudinal profile of Federal workers on issues which have a major impact on their decision to report--or overlook--any illegal or wasteful activities which come to their attention.

The results of this study, although somewhat disquieting, contribute some major pieces to the puzzle in the Board's attempt to understand the true nature and extent of whistleblowing within the Federal workforce and the adequacy of CSRA's whistleblower provisions.

Critical Questions and Issues. Some of the critical questions and issues addressed in this survey are: How much wasteful and illegal activity have employees observed during the past year, and how much of it are they not reporting? What are the reasons for their not reporting it? What would it take to get them to report more? What is the range of outcomes in those instances which **were** reported? What percent of those who do report wrongdoings claim that they suffered some form of reprisal for it? What are employee attitudes toward the practice of whistleblowing? How do employees feel about the adequacy of present whistleblower protections? Do employees believe it is **possible** for the Federal government to protect them from reprisal? How do employees feel about the amount of encouragement they get for reporting illegal or wasteful activities within their agencies? What is their level of awareness of whistleblower channels such as the Office of Inspector General within their agencies, the Office of Special Counsel within the MSPB, and the GAO? How many employees would know where to report an illegal or wasteful activity if one came to their attention? How confident are employees that their supervisors--or persons above their supervisors--would not take action against them if they were to report illegal or wasteful activities?

Procedure. The study was conducted through the administration of a questionnaire, developed in cooperation with the Offices of Inspector General (OIG) in fifteen major Federal departments and agencies. Agencies covered were

Departments of Agriculture, Commerce, Energy, Health and Human Services, Education, Housing and Urban Development, Interior, Labor, Transportation and the Community Services Administration, Environmental Protection Agency, General Services Administration, National Aeronautics and Space Administration, and Veterans Administration. These 15 agencies employ a total of more than 757,000 permanent employees.

The questionnaire was developed in the summer of 1980 and distributed through the OIGs to the home addresses of approximately 13,000 randomly-selected employees employed by the 15 covered agencies. The sample drawn from each agency, in effect, was a mirror image of the total population within that agency. Approximately 8,600 employees completed and returned the questionnaire. Over 2,500 of those employees also included written comments to elaborate upon their answers. (See Appendix A.)

The total returns reflect a slightly higher response rate among mid-level and senior-level employees. Therefore, the aggregate results reported below (represented as "total respondents" or "total workforce"), actually reflect a slightly disproportionate representation of higher-level employees.

FINDINGS

Federal employees, by their own report, have substantial knowledge of waste, fraud, and abuse affecting government operations. Nearly half (45%) of the 8,600 survey respondents claimed to have personally observed or obtained direct evidence of a wasteful or illegal activity within the past year.

The majority of these instances appear consequential and--where quantifiable--involve sums of money in excess of $100. Nearly one employee in ten claimed knowledge of an activity involving more than $100,000.

Much of the wasteful or illegal activities observed by Federal employees is apparently going unreported. Of those employees who claim to have specific knowledge of some wasteful or illegal activity, less than one third (30%) reported the activity to any other person or group. Excluding those persons who reported the activity because it is a regular part of their job, and excluding those persons who reported the activity only to their co-worker(s), the percentage of employees who observed an activity and reported it **on their own initiative** to a **responsible official or channel** is less than one in five (less than 20%).

The belief that "nothing would be done" is the major reason for non-reporting; fear of reprisal is an important, although secondary, consideration. Among those who observed a wasteful or illegal activity and did not report it, the most frequently cited reason (53%) was "I did not think that anything **would** be done to correct the activity." The second most frequently cited reason (20%) was "I did not think that anything **could** be done to correct the activity." The third most frequently cited reason (19%) was "I decided that reporting this matter was too great a risk for me."

Of those employees who observe an illegal or wasteful activity and choose to report it, most report it within their supervisory chain of command and apparently go no further. Over 78% of all employees reporting an activity reported it to their immediate supervisor, and 39% reported it to someone **above** their immediate supervisor. On the other hand, only 8% of all employees reporting an activity reported it to their agency's Office of Inspector General, a little over 1% reported it to the General Accounting Office, and less than 1% reported it to the Special Counsel of MSPB. (The above figures reflect the fact that some employees report to more than one source.)

Employees view existing channels of reporting (both within and outside of their immediate work group) as generally unresponsive. Among employees who reported a wasteful or illegal activity to sources **within** their immediate work group, the most frequently reported result (43%) was "the problem was not resolved at all," and the second most frequently reported result (16%) was that the employee was not sure whether any action was taken. The distribution of results for employees who reported an activity **outside** their immediate work group was not substantially different.

More credible follow-up of employee reports would improve the situation more than any other solution. When employees were asked what would most encourage them to report an illegal or wasteful activity, the most frequently checked response (given by 81% of all respondents) was "knowing that something would be done to correct the activity if I reported it".

More credible protection against reprisal would go a long way too. When employees were asked what would most encourage them to report illegal or wasteful activities, the second most frequently checked response (41%) was "knowing that I would be protected from any sort of reprisal". In a similar vein, the fourth most frequently checked response (28%) was "knowing that I could report it and not identify myself".

A substantial percentage of employees who do report illegal or wasteful activities claim to have suffered reprisal. Among all employees who reported fraud, waste, or mismanagement, approximately 14% claim to have been the victim of some form of reprisal within the last year. Excluding those employees who reported a problem anonymously, the overall incidence of reprisal appears to be closer to 20%. However, it should be noted that the latter figure is a general average, and the actual incidence of reprisal varies substantially by agency.

The most frequently reported forms of reprisal are those which are either beyond the reach of MSPB's regular appeal system or were exceedingly difficult for an investigatory unit (such as Special Counsel) to prove. For example, the most frequently cited forms of reprisal are poor performance appraisal, the assignment of less desirable or less important duties, and denial of promotion. On the other hand, the least frequently cited forms of reprisal were grade level demotion, suspension from one's job, and reassignment to a different geographic area.

There is general uncertainty about the adequacy of whistleblower protections, but most of those who venture an opinion believe they are inadequate. When asked about the adequacy of protection the federal government now offers to whistleblowers, nearly half (48%) of all employees indicated "not sure". Among those who ventured an opinion, however, 66% responded "could and should be better", 22% responded "as adequate as they can be", 9% responded "about right", and 3% responded "more than adequate".

Employees express general skepticism about the very possibility of their being effectively protected against reprisals. When asked if it is possible for the Federal Government to effectively protect a whistleblower who discloses illegal or wasteful activities within his or her agency, 44% of all respondents answered negatively, 44% answered positively, and 12% indicated that they were not sure.

There is a surprising level of skepticism--even outright mistrust--in employees' attitudes toward their supervisors and particularly toward persons above their supervisor. Only about half (45%) of all employees expressed confidence that their supervisor would not take action against them if they were to report illegal or wasteful activities through official channels. Further, only about a quarter (24%) of the employees expressed confidence that persons above their supervisor would refrain from reprisal if they were to report illegal or wasteful activities through official channels.

There is widespread lack of knowledge concerning the very existence of various channels established to receive whistleblower complaints. Over 71% of all employees surveyed had either never heard of the Special Counsel of the Merit Systems Protection Board or knew nothing about what the Special Counsel was supposed to do with whistleblower reports. Approximately 43% of the respondents had either never heard of their agency's Office of Inspector General or knew nothing about what that office was supposed to do. And 32% of all respondents had either never heard of the General Accounting Office or knew nothing about what GAO was supposed to do with information from whistleblowers. Summing up this situation is the fact that less than half (47%) of all employees claimed that they would know where to report an illegal or wasteful activity if one came to their attention. And nearly 60% of all employees explicitly indicated that they would prefer to have more information about where to report illegal or wasteful activities.

Employees feel that encouragement for whistleblowing is lacking within their agencies. When asked how they felt about the amount of encouragement their agency gave to employees who might be inclined to report illegal or wasteful activities, more than half (52%) answered "not enough", nearly a quarter (24%) answered "about right," nearly a quarter (23%) answered "not sure," and only 1.1% answered "too much."

There is general lack of confidence in the channels established to receive whistleblower complaints and protect whistleblowers as necessary. For example, when asked if they were confident that their identity would be protected if they were to report an activity to their agency's Office of Inspector General, 26% of those employees who knew about their agency's OIG were "not sure." Among those who ventured an opinion, however, less than half (46%) were confident that their identity would be protected. When these same employees were asked if the OIG would give careful consideration to their allegations, 25% were "not sure" while only 55% of those who expressed an opinion were confident that their allegations would receive careful consideration.

Likewise, among those employees who knew about the Office of Special Counsel of the MSPB, 36% were "not sure" that OSC would give careful consideration to their allegations, while only 51% of those venturing an opinion were confident that their allegations would receive careful consideration. Most disturbing of all, although 35% of these same employees were "not sure" that the OSC would protect them from reprisal; only about one-third (34%) of those who expressed an opinion were confident that they would receive protection.

CONCLUSIONS

The present survey indicates that Federal employees, by their own report, have abundant knowledge of illegal and wasteful activities in the programs which they administer and support. The present survey also indicates that the Federal Government has hardly scratched the surface in tapping the collective observations which employees could bring to bear in eliminating fraud, waste, and mismanagement in Government operations.

One of the major surprises of the survey is the fact that the major deterrent to employee's willingness to report fraud and waste is not fear of reprisal but the belief that nothing will be done. This may prove to be one of the most intractable problems to solve, since policy statements, hotlines, and whistleblower protections in themselves will not solve it.

What is needed is a far reaching change in attitudes and beliefs within the Federal workforce. By actions as well as by words--and more importantly by the attitudes evidenced by officials and supervisors at all levels--employees must become convinced that their observations are welcomed by their own management, will be given serious consideration, and will be acted upon where the facts warrant. The Federal workforce, as well as the general public, needs to be convinced that the Government is serious about eliminating fraud, waste, and mismanagement.

In addition to the problem of employee unwillingness to report fraud and waste, the present survey suggests that the various channels established to receive such reports are greatly hampered by lack of knowledge concerning their existence. While many of these channels have been in existence only one to three years, common observation suggests that there has been a lack of systematic communication to all employees and a general reliance on the grapevine, specialized news media, and an apparent operating philosophy that "those who have something to report will somehow find the place to report it."

The present survey results also suggest that reporting channels which wait for employees to come to them are inherently limited in the percentage of employee observations they can net. One very practical recommendation which comes out of the survey is the idea that the Offices of Inspector General might survey the employees within their own agencies on a periodic basis to make their existence known, explain their purposes, and invite pertinent observations. The present survey indicates that employees are willing--even eager--to contribute their observations if someone only asks them to do it.

Finally, the survey suggests that the whistleblower protections established under the Civil Service Reform Act of 1978 have fallen far short of their intended goal of reassuring Federal employees that whistleblowing is worth the risk. As of this writing, the General Accounting Office has issued two reports detailing some of the shortcomings in the operations of the Office of Special Counsel.[1] But the present survey contributes the additional insight that the most frequently used forms of reprisal are relatively subtle and often involve actions **not** taken or actions which are easily justified on the basis of managerial discretion. In some cases, therefore, the very form of reprisal will limit the ability of the Office of Special Counsel to prove or protect against it. At the very least, the Office of Special Counsel will need exceptional leadership, as well as adequate resources, to persuade employees that it can go to bat for them should they need protection.

More fundamentally, the survey indicates that the Federal Government needs a workforce which sees its management as genuinely committed to the elimination of fraud, waste, and mismanagement, and top officials who render the very idea of reprisal unthinkable to their subordinates. Laws alone cannot accomplish this. It must be an act of will, demonstrated by the leadership and consistent actions of the current Administration and gradually accepted by employees in all agencies, at all levels.

1/ "The Office of the Special Counsel Can Improve its Management of Whistleblower Cases," GAO Report FPCD-81-10, December 30, 1980 (17 pages) and "First-Year Activities of the Merit Systems Protection Board and the Office of the Special Counsel," GAO Report FPCD-80-46, June 9, 1980 (61 pages).

SECTION I

HOW MANY FEDERAL EMPLOYEES CLAIM PERSONAL KNOWLEDGE OF FRAUD, WASTE, AND MISMANAGEMENT?

The questionnaire is unique in that it attempts to define the type or category of illegal or wasteful activity that some claim to have observed and then it provides for some measure of its estimated dollar value or frequency. To know whether a respondent had at least the **potential** to be a "whistleblower," therefore, each was asked: "Regardless of whether or not it is part of your job, **during the last 12 months**, have you **personally observed** or obtained **direct evidence** of any of the following activities?" The respondents were then provided a list of ten illegal or wasteful activities and cautioned not to answer "yes" to anything they only read about or only heard about as a rumor. This step was intended to exclude those with only hearsay information.

For each of the ten activities, the magnitude of the problem was assessed by the respondent in terms of a dollar amount involved, where applicable, or by the frequency of its occurrence. The ten activities, as listed in the questionnaire are:

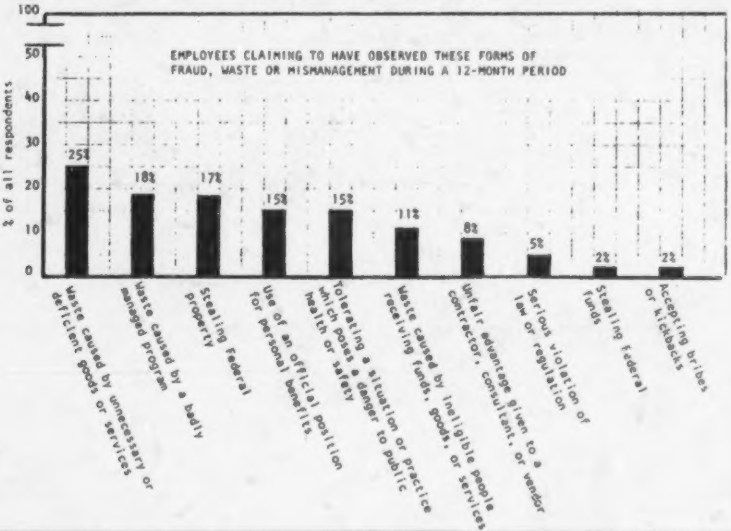
- Employee(s) stealing Federal funds.
- Employee(s) stealing Federal property.
- Employee(s) accepting bribes or kickbacks.
- Waste of Federal funds caused by ineligible people (or organizations) receiving Federal funds, goods, or services.
- Waste of Federal funds caused by buying unnecessary or deficient goods or services.
- Waste of Federal funds caused by a badly managed Federal program.
- Employee(s) abusing his/her official position to obtain substantial personal services or favors.
- Employee(s) giving unfair advantage to a particular contractor, consultant or vendor (for example, because of personal ties or family connections, or with the intent of being employed by that contractor later on).
- Employee(s) tolerating a situation which poses a danger to public health or safety.
- Employee(s) commiting a serious violation of Federal law or regulation other than those described above.

Findings

- Approximately 45% of all respondents indicated that they had personally observed or obtained direct evidence of one or more of the ten illegal or wasteful activities listed. Graph I illustrates the incidence of each type of illegal or wasteful activity. For example, one-fourth of all employees claim to have personally observed (or had direct evidence of) some degree of "waste of Federal funds caused by buying unnecessary or deficient goods or services."

GRAPH 1

Q 15: Regardless of whether or not it is part of your job, during the last 12 months, have you personally observed or obtained direct evidence of any of the following activities? (Please "X" ONE box after each activity.)

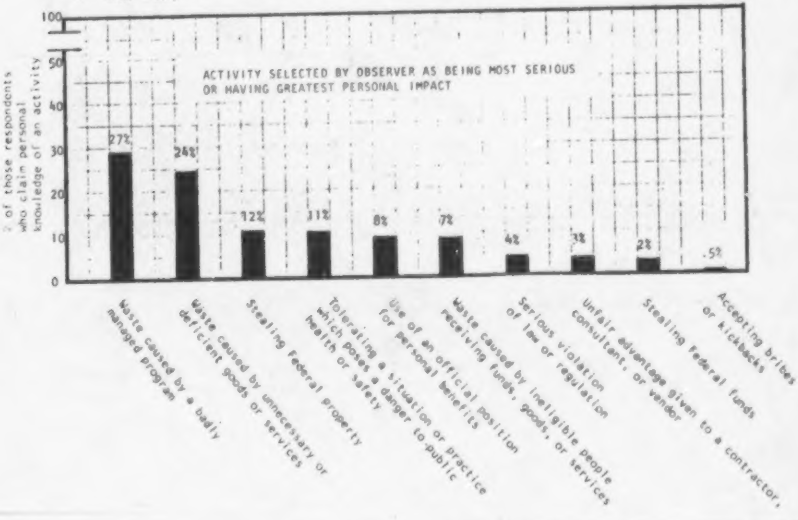


- Even if those respondents who only had knowledge of activities of less than $100 in value or only rarely occurring are set aside, there are still 38% of all employees claiming direct knowledge of one or more of the listed activities. This would indicate that most employee observations are not simply of the "taking a Government pen home" variety.

- If restricted to only those activities which can be assigned a dollar value, substantial numbers of employees still fall within the following categories:
  - -- Almost **one-third** (31%) of all employees claim direct knowledge of fraudulent or wasteful activities involving **more than $100** in Federal funds or property.
  - -- Almost **one-fourth** (23%) of all employees claim personal knowledge of fraudulent or wasteful activities involving **more than $1,000** in Federal funds or property.
  - -- Close to one out of ten (9%) of all employees claim to have observed Government related waste **in excess of $100,000.**
- Those employees who claimed knowledge of any illegal or wasteful activity were also asked to select the most serious or personally damaging problem they knew about in order to provide more specific information relative to that event. Graph No. 2 indicates the results of that question. Over half (51%) selected one of two categories, i.e., "waste of Federal funds caused by a badly managed program," and "waste of Federal funds caused by buying unnecessary or deficient goods or services."

GRAPH 2

Q 16: If you indicated "yes" to one or more of the activities listed in question 15, please select the one activity that represents the most serious problem you know about or the one that had the greatest impact on you personally. (Please "X" ONE box)



Conclusion

- It would appear that Federal employees are an extremely knowledgeable and perhaps the **most** knowledgeable source of information regarding specific instances of fraud, waste, and mismanagement affecting their agencies. Section II of this report explores the degree to which the Government has been able to tap this potential source of useful information.

SECTION II

DO EMPLOYEES "BLOW THE WHISTLE" AND TO WHOM?

One of the key questions in the survey was whether or not employees with direct knowledge of illegal or wasteful activities would report it. As previously mentioned, it has been the goal of Congress to encourage employees to come forward with relevant information. We also asked all survey respondents if they knew where to report illegal or wasteful activities in the first place, and how much did they know about those organizations established as alternative channels for those reports.

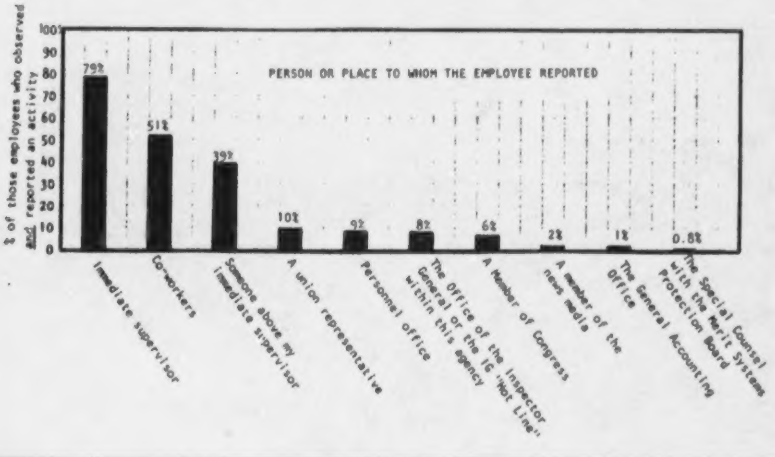
Findings

- Approximately 70% of all employees who know of specific instances of fraud, waste, and mismanagement never report that activity to anyone. In addition, many of those reporting do so because it is a routine part of their job (for example, as an auditor or investigator). Excluding those employees who reported an activity as a routine part of their job, we find that only 22% of all employees report an illegal or wasteful activity on their own initiative.

- Over 78% of all employees who did report an activity reported it to their supervisor and 39% reported it to someone above their supervisor. In some cases, they reported it to both sources. Graph 3 shows the percentage of employees who reported an activity to one or more sources.

GRAPH 3

Q 23: Did you report this activity to any of the following? (Please "X" ALL the boxes that apply)

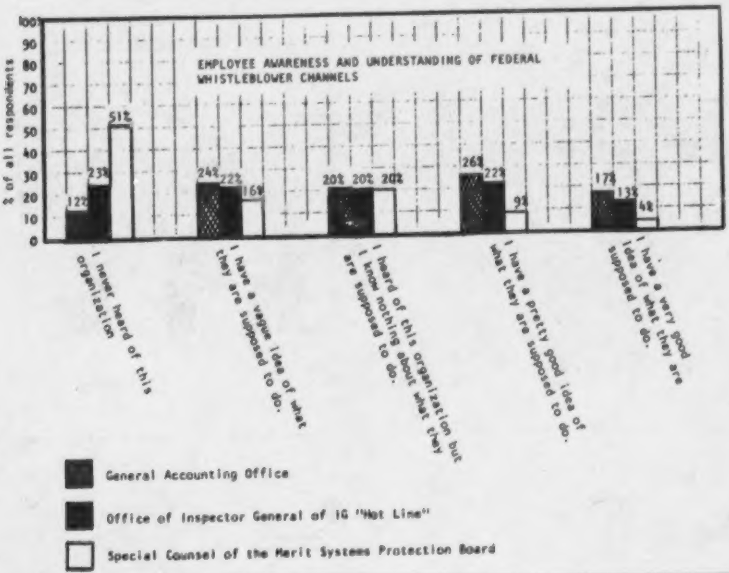


- As also shown in Graph 3, only about 8% of all employees reporting a problem reported it to the Office of Inspector General within their agency. 1.4% reported to the General Accounting Office and slightly less than 1% reported to the Special Counsel within the MSPB. These results should not be taken as an indictment of the effectiveness of these organizations, however, since there are a variety of reasons that might explain these responses. Most employees, for example, are encouraged to report suspected problems through the supervisory chain of command. These employees have no need to go beyond the chain of command if the problems are resolved.

- Another clue as to why organizations outside the chain of command are infrequently used by employees reporting illegal or wasteful activities may be contained in the responses illustrated in Graph 4. As shown, the level of knowledge that employees have about these organizations is generally very low. More than half (51%) of all respondents have never even heard of the Special Counsel of the MSPB and another 20% had heard of it but had no specific knowledge of its mission. Once again there are several reasons that may account for this relatively low level of awareness. For example, the Office of Special Counsel and most of the Offices of Inspector General are relatively new having been officially established within the last one to three years. In addition the OSC's relatively small size (less than 200 employees nation-wide) has contributed to its low profile.

GRAPH 4

Q 8: Have you heard of the following organizations, and how much do you know about what they are supposed to do if they receive information concerning illegal or wasteful activities? (Please "X" ONE box after each organization)

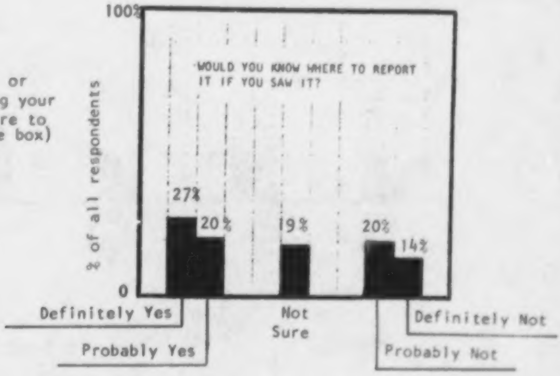


- Even among employees who knew about the Office of Special Counsel of the MSPB, however, 36% were "not sure" that the OSC would give careful consideration to their allegation of illegal or wasteful activities. Of those who ventured an opinion, only half (51%) had confidence they would receive careful consideration. More disturbing, of those employees who knew about the Special Counsel, 35% were "not sure" that the OSC would protect them from reprisal and only 34% of those who expressed an opinion were confident that they would receive protection. Even if unfounded, these beliefs contribute to the reluctance of employees to report fraud, waste and mismanagement outside the chain of command. In a similar vein, among those employees who knew about their agency's Office of Inspector General, 26% were "not sure" that their identity would be protected if they were to report an activity to the OIG. Among those who ventured an opinion, however, less than half (46%) were confident that their identity would be protected. When those employees who knew about the OIG were asked if the OIG would give careful consideration to their allegations, 25% were "not sure" while only 55% of those who expressed an opinion were confident that their allegations would receive careful consideration.

- In a related question, all employees (including those who had not observed any illegal or wasteful activities) were asked if they would know where to report it if they were to observe such activities. As shown in Graph 5, less than half (47%) of all employees claim that they would know where to report an illegal or wasteful activity.

GRAPH 5

Q 1f. If you observed an illegal or wasteful activity involving your agency, would you know where to report it? (Please "X" one box)



Conclusion

- A large majority of employees who observe or obtain direct evidence of fraud, waste, and mismanagement do not report it. One reason for this finding appears to be the lack of knowledge about where to report such activities. The level of awareness is especially low regarding those alternative organizations which are outside the supervisory chain of command. Furthermore, among those employees who were aware of two of the major alternative reporting channels (the Office of Special Counsel and Office of Inspector General), there is a relatively high degree of uncertainty or lack of confidence regarding these organizations. Other reasons why employees do not report illegal or wasteful activities are explored in Section III.

SECTION III

WHY DO EMPLOYEES CHOOSE NOT TO REPORT FRAUD, WASTE, AND MISMANAGEMENT?

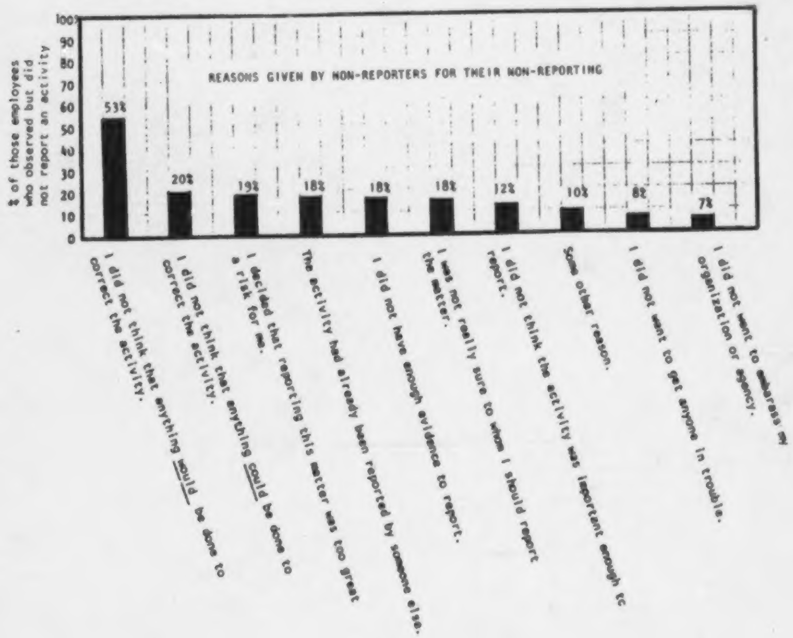
A certain number of employees choose not to report fraud, waste, or mismanagement which they observe. The questionnaire contained a number of questions designed to discover the primary reasons for their decision. The responses to those questions are discussed in this section.

Findings

- As shown in Graph 6, employees who had observed an illegal or wasteful activity and consequently decided not to report it were asked to indicate the reason(s) for their decision. The predominant reason for not reporting, selected by 53% of the respondents, is simply their belief that nothing **would** be done to correct the activity if reported. A smaller number (20%) felt that nothing **could** be done to correct the activity.

GRAPH 6

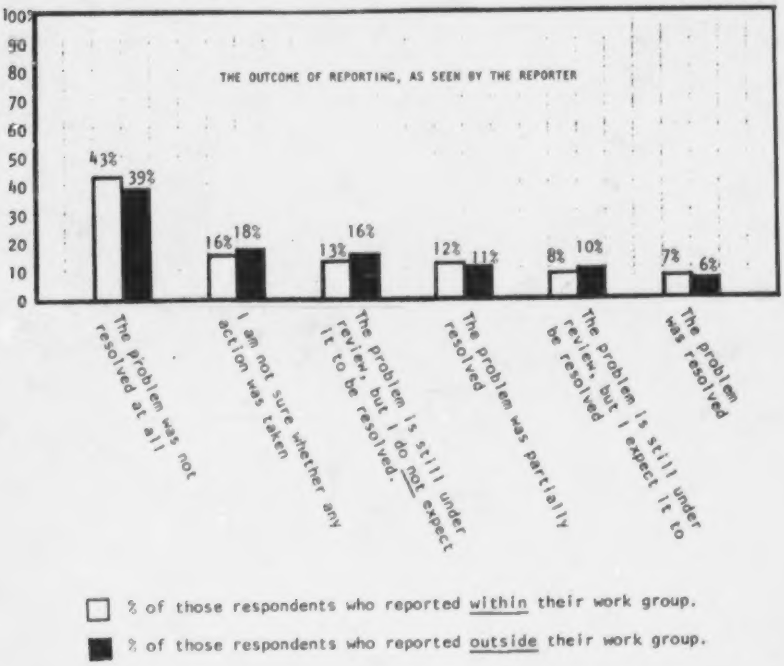
Q 22: If you did not report this activity to any individual or group, which of the following statements best describes your reason(s) for not reporting it? (Please "X" ALL the boxes that apply)



- The belief that nothing would be done to correct a reported activity is supported by the actual experiences of those who did report wrongful activities. As shown in Graph 7, regardless of whether an activity was reported within or outside of one's immediate work group, only about one-fourth of the respondents could claim that the problem was even partially resolved.

Graph 7

Q 25 & 26: If you reported this activity to sources within (or outside) your immediate work group (that is, the people with whom you work most closely on a day-to-day basis), what effect did it have? (Please "X" ONE box)



Conclusion

- There are a variety of factors that appear to influence an employee's decision not to report an illegal or wasteful activity. Belief that such a report would be fruitless in terms of correcting the problem is the reason most often cited. Another major reason shown in Graph 6 is the belief that reporting would be too great a risk for the employee. A more detailed look at this latter belief is the focus of Section IV to this report.

SECTION IV

HOW EXTENSIVE IS REPRISAL OR FEAR OF REPRISAL?

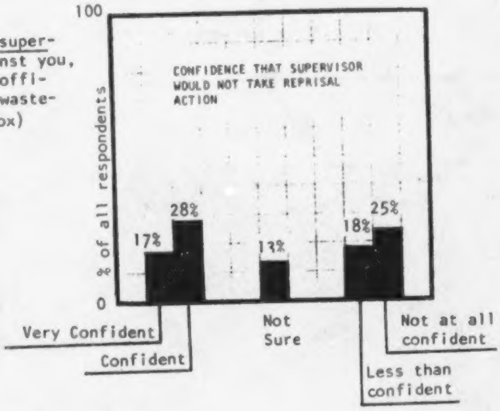
The survey asked all employees several questions to be answered based on their general attitudes and beliefs. A second set of questions was directed at only those employees who had actual experiences to report.

Findings

- As illustrated in Graph 8, less than half (45%) of all employees are confident that they could report an illegal or wasteful activity--through official channels--without having their supervisor take some type of reprisal against them. As shown in Graph 9, less than one-fourth (24%) are confident that someone **above their supervisor** would not take some action against them.

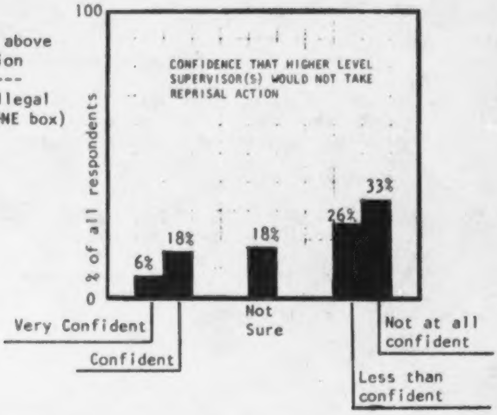
GRAPH 8

Q 4. How confident are you that your supervisor would not take action against you, if you were to report---through official channels---some illegal or wasteful activity? (Please "X" ONE box)



GRAPH 9

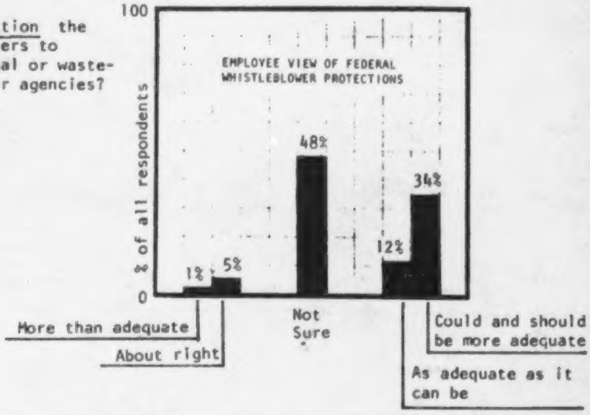
Q 5. How confident are you that someone above your supervisor would not take action against you, if you were to report---through official channels---some illegal or wasteful activity? (Please "X" ONE box)



- As seen in Graph 10, 34% of all employees believe that the protections the Federal Government offers to whistleblowers are inadequate, while almost half (48%) are not sure of their adequacy.

GRAPH 10

Q 2. How adequate is the protection the Federal Government now offers to employees who report illegal or wasteful activities within their agencies? (Please "X" ONE box)

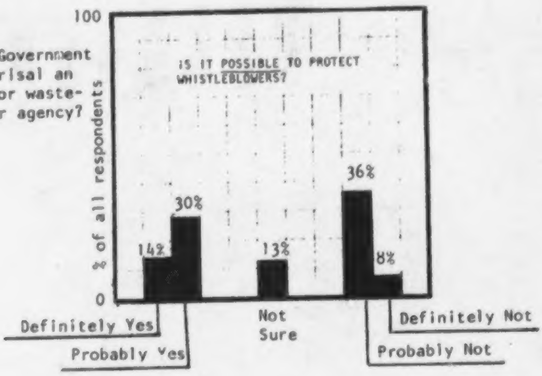


- Graph 11 shows that 44% of all the employees surveyed do not believe that it is even possible for the Federal Government to protect whistleblowers from reprisal, and 13% are **not sure** if it is possible.

GRAPH 11

1. The following questions ask for your opinion about the practice of reporting illegal or wasteful activities.

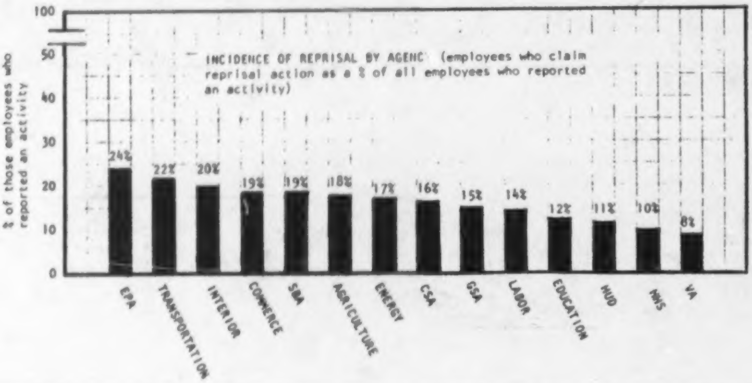
Q 1b. Is it possible for the Federal Government to effectively protect from reprisal an employee who discloses illegal or wasteful activities within his or her agency? (Please "X" ONE box)



- Approximately 14% of all employees who reported some illegal or wasteful activity also claim to have suffered some type of reprisal or threat of reprisal. Some of these employees reported the activity anonymously, however, and thus would not have had the potential to suffer reprisal. The true rate of reprisal, therefore, for those who are identified by their agency as having reported fraud, waste, and mismanagement is approximately 20% on the average. The survey also found, as shown in Graph 12, that the rate of reprisal varies according to agency. According to employee reports, therefore, the incidence of reprisal for "whistleblowing" may be as high as one in four in some agencies.

GRAPH 12

Q 28: Within the last 12 months, have you personally experienced some type of reprisal because of an activity you reported? (Please "X" ONE box)



Conclusion

- The Federal employees surveyed tend to be somewhat pessimistic about their ability to report fraud, waste, and mismanagement without reprisal. Based on the experiences of those who have "blown the whistle", this pessimism appears to have some basis in fact.

SECTION V

HOW IS REPRISAL TAKEN AND WHAT IS ITS IMPACT ON GOVERNMENT OPERATIONS?

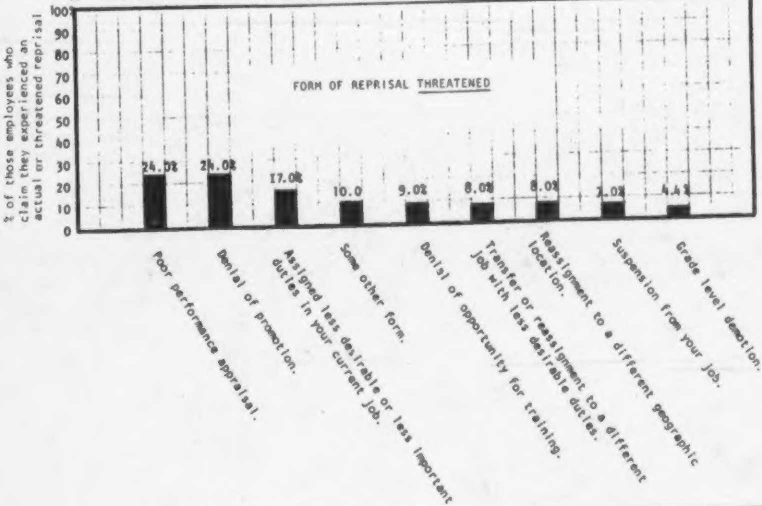
Those employees who experienced reprisal or threats of reprisal were asked to describe the form the reprisal took and the effect it had on them. Their responses provide some revealing insights.

Results

- Among all employees who reported a threat of reprisal or an actual reprisal:
  - -- 20% report that a threat of reprisal was made but **not** carried out.
  - -- 36% report that a threat of reprisal was made and actually carried out, and
  - -- slightly less than half (45%) report that a reprisal occurred without threat or warning.
- Graph 13 depicts the percentage of reprisal victims who claim they were threatened with one or more specific forms of reprisal. The three types of reprisal most often threatened are a poor performance appraisal, denial of a promotion, and a general "watering down" of job responsibilities.

Graph 13

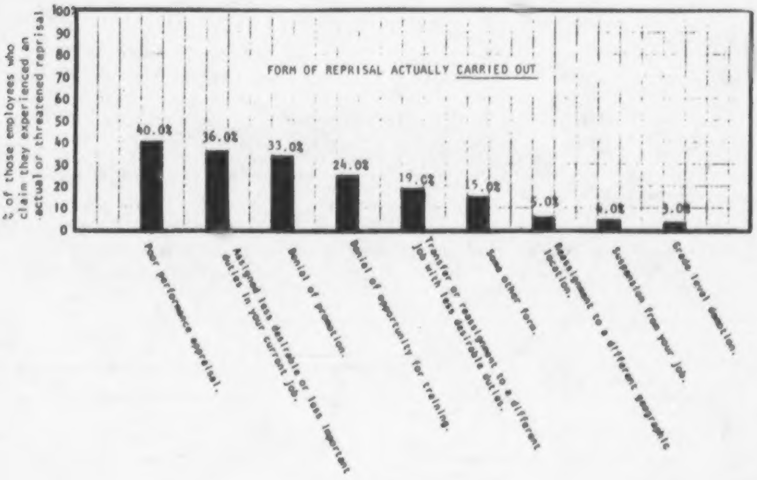
Q. 34 : Did the reprisal or threat of reprisal take any of the following forms? (Please "X" ALL the boxes that apply)



- Graph 14 shows the percentage of reprisal victims by alleged form of reprisal. The three forms of reprisal most often threatened are also the three forms most often carried out.

GRAPH 14

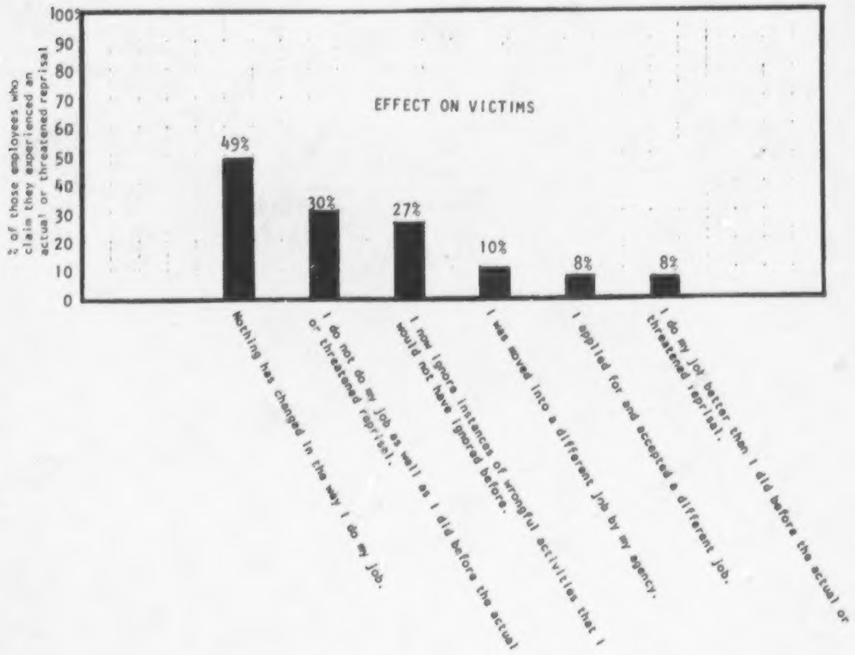
Q 34. Did the reprisal or threat of reprisal take any of the following forms? (Please "X" ALL the boxes that apply)



- The effect of a reprisal or threat of reprisal on a victim's job performance is shown in Graph 15. Of interest here is the fact that 30% of the employees who experienced some type of reprisal claim that they do not perform their job as well as they previously did. In addition, 27% claim they now ignore instances of wrongful activities that they would previously not have ignored.

GRAPH 15

Q 35: How was the way you do your job affected by the reprisal or threat of reprisal? (Please "X" ALL the boxes that apply)



- Almost 60% of the reprisal victims made some response to the reprisal action (such as filing an appeal or grievance), but only 17% of all employees who took some action were successful in gaining some type of redress.

Conclusion

- Almost half (45%) of all employees who experience reprisal are not explicitly forewarned. Even for those employees who receive a warning in the form of a threat of reprisal, 64% end up seeing the threat actually carried out in some form.
- Actual or threatened reprisal takes many forms, but the most frequently occurring are those which are not easily documented. For example, a denial of promotion or training as opposed to a geographic reassignment or a demotion.
- Beside the obvious negative impact to the victim of reprisal, as shown in Graph 15 the Government is also likely to suffer from a decline in employee productivity and a decline in the number of employees willing to report instances of fraud, waste, and mismanagement to responsible officials. Section VI describes employee attitudes about the desirability of whistleblowing.

SECTION VI

HOW DO FEDERAL EMPLOYEES FEEL ABOUT WHISTLEBLOWING?

In order to place the responses of the survey participants into a general frame of reference, a short series of attitudinal questions was placed at the beginning of the questionnaire. It should be noted that in the developmental stage of the survey, MSRS staff discovered that the term "whistleblower" has many connotations. Some people associated it with disloyalty, using words like "fink," "stool pigeon," or "trouble maker," while others regarded it as exactly the opposite, using words like "patriotic citizen" or "conscientious employee." To avoid introducing unintentional bias, the questionnaire used the less value-ladened terminology "employees who report illegal or wasteful activities" as a synonym for whistleblower.

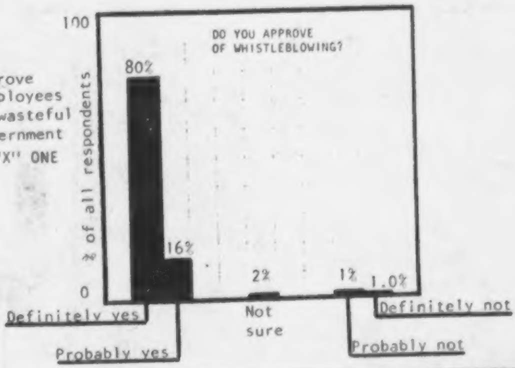
To gauge employee attitudes to the general notion of reporting illegal or wasteful activities within one's own agency, three separate but related questions were asked. The responses are depicted in Graphs 16, 17, and 18.

Findings

- As shown in Graph 16, when employees were asked whether they personally approved of employees who report illegal or wasteful activities within Government operations, 80% of the employees were emphatic in answering "definitely yes" and, combined with the 16% who responded with a "probably yes", the responses evidence an unusually high agreement rate.

Graph 16

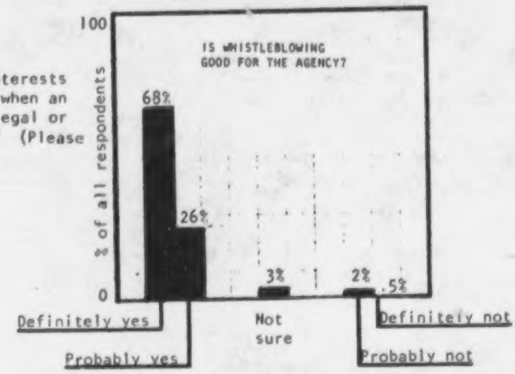
Q 1a. Do you personally approve of the practice of employees reporting illegal or wasteful activities within Government operations? (Please "X" ONE box)



- Employees were asked to assess the ultimate effect on the agency when one of its employees reports an illegal or wasteful activity. Once again, as shown in Graph 17, there is extremely high agreement (approximately 94%) that such a report is ultimately in the best interests of the agency.

Graph 17

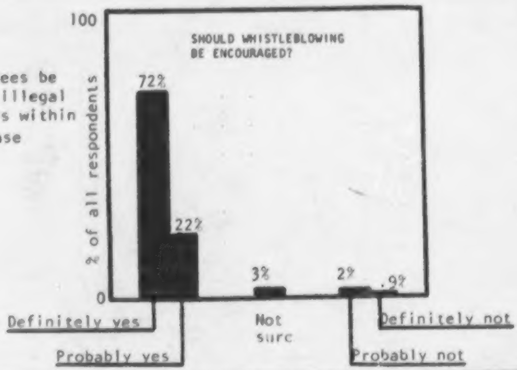
Q 1c. Is it in the best interests of a Federal Agency when an employee reports illegal or wasteful activities? (Please "X" ONE box)



- Finally, the survey participants were asked to go one step further and judge whether Federal employees should actually be **encouraged** to report illegal or wasteful activities within their agencies. The responses shown in Graph 18 remain consistent with the previous two questions, with approximately 94% of the participants responding affirmatively.

Graph 18

Q 1d. Should Federal employees be encouraged to report illegal or wasteful activities within their agencies? (Please "X" ONE box)



Conclusions

- Federal employees overwhelmingly agree, in principle, that fraud, waste, and mismanagement should be reported; that it is in the best interests of their agency to do so; and that employees should be **encouraged** to report. However, as earlier noted, many of these same employees who have observed illegal and wasteful activities do not report for various reasons. It would appear, therefore, that encouraging more employees to report illegal and wasteful activities does **not** require a major shift in their basic attitudes about the desirability of whistleblowing. Section VII, on the other hand, outlines some actions which are necessary.

SECTION VII

HOW CAN MORE FEDERAL EMPLOYEES BE ENLISTED IN EFFORTS TO ELIMINATE FRAUD, WASTE, AND MISMANAGEMENT?

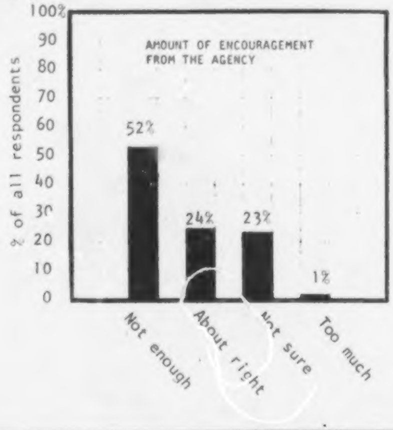
Employees can only be effective in helping to eliminate fraud, waste, and mismanagement by first being willing to disclose the existence of such activities. The survey, therefore, also included questions designed to determine the conditions which would most encourage employees to report such activities.

Findings

- Graph 19 illustrates the response to a question asking employees to assess the amount of encouragement they feel their agency provides to employees who might be inclined to report illegal or wasteful activities. Although there is some variation by agency, over half (52%) of all employees believe there is not enough encouragement.

GRAPH 19

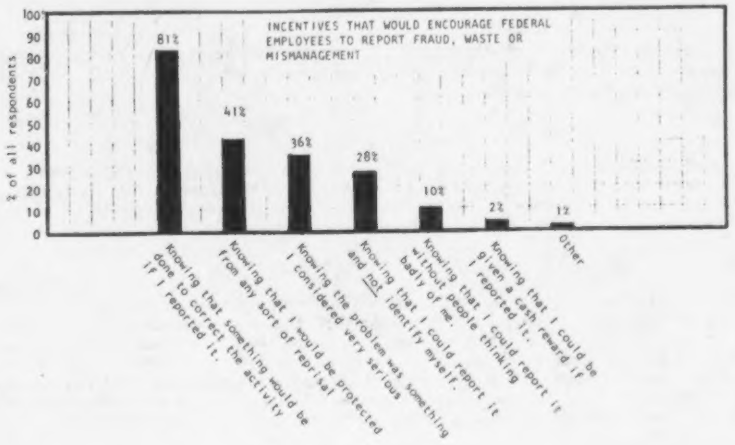
Q 3: How do you feel about the amount of encouragement your agency gives to employees who might be inclined to report illegal or wasteful activities within the agency? (Please "X" ONE box)



- Graph 20 on the following page shows the responses to a question asking employees to identify two conditions that would most encourage them to report an illegal or wasteful activity. "Knowing that something would be done to correct the activity if I reported it" was the most frequently selected response (81%). "Knowing that I would be protected from any sort of reprisal" was the second most frequently selected response (41%). The fourth most frequently selected response would achieve the same effect as protection from reprisal, i.e., "knowing that I could report it and not identify myself" (28%).

GRAPH 20

Q 7: If you observed or had evidence of an illegal or wasteful activity, which two of the following would most encourage you to report it? (Please "X" TWO boxes)



Conclusion

- The major reason employees cite for not reporting fraud, waste, or mismanagement is their belief that nothing would be done to correct the problem even if reported. Fear of reprisal, although a secondary consideration, is still significant. What is needed to encourage greater numbers of employees to join in the effort to eliminate fraud, waste, and mismanagement is a far-reaching change in attitudes and beliefs within the Federal workforce.

- Federal employees must be convinced, by actions as well as by words, that their agency management welcomes observations concerning illegal and wasteful activities. They must also be convinced that their agency management will give serious consideration to their observations and will take action where the facts warrant. Finally, employees must be able to responsibly report fraud, waste, and mismanagement secure in the knowledge that reprisal will not be taken.

APPENDIX A

SELECTED EXAMPLES OF FRAUD, WASTE, OR MISMANAGEMENT PROVIDED BY RESPONDENTS

"The . . . Program is still a problem. [One] contractor is a prime example. The company misused federal funds, has repaid very little, yet it is still receiving funds due to political pull."

* * * * *

"I feel that the . . . program is poorly run. Not so much by the [agency], but the laws which we are confined to. There is a high degree of waste in this program which I see daily in thousands of dollars of overpayments. The program should be more cut and dry without so many loopholes."

* * * * *

"(1) Controls in respect to payments to landlords are almost non-existent. This program has the potential as being one of the most wasteful of all housing programs. It has been noted on many occasions that if a landlord is a personal friend of the authority or an employee of the authority, a more lax attitude is taken in the inspection of the unit to ascertain compliance and occasionally more money is paid than standards dictate. In addition, it has been noted that tenants pay more to the landlord that computed income would require."

(2) By placing the administration of this program under [local governments], fraud, waste and total mismanagement is the result. I have personally observed embezzlement of federal funds in excess of $200,000.00."

* * * * *

"The most badly managed program that I knew about in [agency] is the . . . . . . program under which the local agencies are reimbursed at flat fee for each [unit]. The fee is excessive and as a result the agencies build up huge surpluses that can be spent at their discretion for whatever purpose they desire . . . . As a result those [local agencies] which are Federally supported are able to pay their top management excessive salaries along with travel junkets all in the name of providing [a certain type of] assistance to 'needy families.'"

* * * * *

"I think it is rather ironic that I am completing this questionnaire on waste in government for a report to Congress when the Congress is the source of the vast majority of waste I am complaining about. Let's have clear, concise and equitable laws instead of administrative nightmares that are geared toward whatever special interest group catches the right Congressman's ear and I am sure you will be amazed with the savings."

"I believe there is a lot of waste of taxpay. s funds in federal agencies. The largest in my opinion are useless studies and other services which are awarded to outside contractors."

"Having been a management consultant in private industry; I feel that at least 10% if not 20% could be saved by selectively cutting certain items. This must be done without imposing ridiculous controls on such items are paper, pencils and necessary supplies. Most federal employees are honest, hardworking people. At least in my brief (5 years) encounter with them."

* * * * *

"The . . . hospital spends thousands of dollars each year for new and replaced carpeting. The carpets are ripped up and replaced as often as six months. I would think that .90 cents of each . . . dollar goes for non-patient care. This same attitude is reflected in buying furniture. I have taken desks and tables to employees in the different hospital services and they didn't want new furniture but were forced to take it. There seems to be an endless supply of money for hospital maintenance while money for patient care is scarce."

* * * * *

"Cost of services or goods from GSA far exceed prices quoted for the same goods from private sector. The requirement to use GSA [makes it appear] that competitive competition is not [favored] to save government funds and our own form of price fixing is established."

* * * * *

The . . . Act appears to have been developed primarily for the enrichment of sponsors, builders, and mortgage bankers. Units are continually built in over-saturated areas. . . . The builder drastically overprices the dwelling and the buyer does not have any concern as his payments are based on income more than sale price and pressure is put on appraisers to justify this high sales price."

* * * * *

"By hiring contractors for technical services, expertise, etc. the Federal Government is offering the fiction and perpetrating the lie that it is saving money by reducing the Federal payroll. . . . "

* * * * *

" [This] program . . . [operates] basically on [the] 'honor system' with very little cross check to insure a beneficiary is entitled."

"Professional employees in my agency find it necessary to spend great amounts of time performing purely clerical chores because upper management fails to provide sufficient and competent clerical support."

* * * * *

"The most common waste I have seen in many past years is the propensity for the [agency] to spend unused funds at the end of a fiscal year so as to not show the need for a reduction in funding for the next fiscal year."

* * * * *

"Every organization I have worked for has spent $1,000's of dollars at the end of the fiscal year rather then turn in their excess. It's not just one organization, they all do it."

* * * * *

"I have served on competitive panels with at least three other career professionals who objectively selected contractors. Procurement refused to award contracts because the selections did not satisfy the [Presidential appointee] in charge of procurement."

* * * * *

"Thru ineptitude, mismanagement, and plain stupidity in the selection of a replacement for an obsolete and over taxed computer system, [several agencies] have rendered thousands of man years of software development obsolete. Hundreds more man years and many millions of dollars have been and will be spent converting these applications to the replacement system because it is totally incompatable with its predecessors."

* * * * *

"I believe it to be very poor Federal management to reduce the number of employees and then contract with private industry for those same services. This is always done under the pretense of saving money. We all know this does not save but usually costs more but is coming from funds which are not as accountable to the public."

* * * * *

"Last minute end of year contracts being awarded to unfit consultants. Instructions to hire 'warm bodies--so we don't lose ceiling' even when there is no space or furniture available for the new employee-and worse, no specific work for them to do."

* * * * *

"In my opinion, much of the outside contracting for information that I have observed is highly wasteful in that the products are frequently less than helpful and almost as much internal time is required to oversee the effort and attempt to make the report acceptable as to do it in the first place. Directors have appeared to approve too many loose, ill conceived, mismanaged grants and contracts."

* * * * *

"Rather than being a watchdog of federal funds the subunit within the agency has become an advocate for each state agency with which it deals."

* * * * *

"I know of several instances where employees add on overtime after the supervisor has initialed timecards."

* * * * *

"I regard the expenditures on small computers and word processors as profligate. My agency has bought dozens--possibly more than one hundred (it's a small agency)--in the past year of these expensive machines. Many of them stand idle for much of the day."

* * * * *

As an employee (auditor) of the agency , I have observed the futility of regulations designed to control a specific industry as it relates to pricing, etc. I have observed a set of regulations that are so ambiguous as to defy application and a resulting morale problem that renders the agency useless."

* * * * *

"In order to spend or in most years over-spend (a management requirement) the agency's operating budget, I have often been given the task of finding new uses for and disposing of funds rather than finding ways to reduce the operating budget. I was instructed on several occasions to find contractors who would bill the agency for work that had not been started or even planned. This was done so large sums of excess budget monies could be spent rather than returned at the end of the fiscal year.

APPENDIX B

A SAMPLING OF REASONS GIVEN BY RESPONDENTS FOR NOT REPORTING FRAUD, WASTE, AND MISMANAGEMENT

"I don't think that there is any question about knowing where to report irregularities. The question you should have asked is **would** you report any violations. The answer would have been **no.** The only one who could, would be someone who has nothing to lose. With the threat of rotational assignment of [certain people] and SES and [Merit Pay] hanging over one's head I doubt if there would be any rush to report anything."

* * * * *

"First of all, try as you may, there is no way to keep the identity of the "reportee" a secret as anyone who has worked in a large office can testify, secrets are the first thing that hit the grapevine. Even if specific names are not disclosed, a little careful analysis of what ever information was reported (for example, someone stealing office supplies) usually will narrow down the number of possible informers and enable a fairly accurate guess."

"Secondly, the very nature of our civil service system discourages making waves. If the elimination of a certain program, which is not cost effective or in fact wasteful, might cost me my job, would I report it?"

* * * * *

"From what I understand about the situation, "whistleblowers" had better be prepared to spend money on legal fees, consult a lawyer first, and be prepared to look for a new job."

* * * * *

"I don't believe monetary awards [to encourage employees to report waste, etc.] are proper, if adequate protection could be provided to employees I believe that more of these situations would be reported. The media reports about reprisals taken against federal employees have probably scared many into not revealing what they know."

* * * * *

"Reprisals can come about in many disguised situations."

"Not knowing who to trust or where to report are probably the most common factors preventing employees from reporting any illegal or wasteful activities."

"The idea of having all workers as watchdogs of government operations is laudable. However, to the best of my knowledge the man who blew the whistle on the C-5A cost overruns was essentially forced out of the government as a reprisal. I have not heard that this apparent wrong was redressed in any meaningful way."

"If my meager knowledge of the above case is correct (just what I have heard on the news) with the attendant publicity, how can the "little whistle blower" possibly be protected?"

* * * * *

"My personal experience and observation is nothing will be done except retaliation."

* * * * *

"It is pretty much an accepted fact that "troublemakers" (anyone who reports the types of things in this questionnaire) face reprisals, direct or indirect. People are discouraged from making waves in organizations, whether it involves reporting fraud, mismanagement, or involves grievances, EEO, or other complaints."

* * * * *

"If I knew of any wrong doing I would not verify or report it. I know from past experience that the crooks are the ones that are protected."

* * * * *

"I don't believe that the average employee is afraid of reprisals or is looking for a reward as much as he is convinced no one cares. So much waste is prevalent in federal grant-in-aid programs that a pervasive feeling of "that's the way it is" exists at all levels."

* * * * *

"Lack of a local, internal program to combat waste and inefficiency. Staff has been made aware of Inspector General's office in Washington but there is no encouragement to report serious offenses or deficiencies locally. During recent (Oct. 1980) Inspector General visit, no opportunities made available to staff to talk with team."

* * * * *

"Federal employees know well the experience of . . . cost analyst Ernest Fitzgerald who in testifying about cost overruns later found his career diverted to a sparse back room working on trivia."

APPENDIX C

U.S. Merit Systems Protection Board
Washington, D.C.

Do Federal Employees Face Reprisal for Reporting Fraud, Waste or Mismanagement?

In this questionnaire, we will ask about your opinions—as well as any experiences you may have had—concerning the reporting of illegal or wasteful practices within Government operations. *You may not have to answer every question.* Instructions in each section below will tell you what questions to skip. Please use the last page to write any comments you may wish to make. The major things we will be asking about are:

- *reprisal*, that is, taking an *undesirable* action against an employee or *not* taking a *desirable* action *because* that employee disclosed information about a serious problem. Reprisal may involve such things as transfer or reassignment to a less desirable job or location, suspension or removal from a job, or denial of a promotion or training opportunities;

- *illegal or wasteful activities.* This covers a variety of situations, such as stealing Federal funds or property, serious violations of Federal laws or regulations, or waste caused by such things as buying unnecessary or defective goods;

- *your immediate work group*, that is, the people with whom you work most closely on a day-to-day basis;

- *your agency*, that is, the major Federal organization for which you work, such as the Department of Agriculture, Department of Commerce, the Veterans Administration, Environmental Protection Agency, etc.

Card 1
(1-6)

SECTION I

1. The following questions ask for your *opinion* about the practice of reporting illegal or wasteful activities. *(Please "X" ONE box for each question.)*

	Definitely Yes	Probably Yes	Probably Not	Definitely Not	Not Sure
a. Do you personally approve of the practice of employees reporting illegal or wasteful activities within Government operations?	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
b. Is it *possible* for the Federal Government to effectively protect from reprisal an employee who discloses illegal or wasteful activities within his or her agency?	☐	☐	☐	☐	☐
c. Is it in the best interests of a Federal agency when an employee reports illegal or wasteful activities?	☐	☐	☐	☐	☐
d. Should Federal employees be *encouraged* to report illegal or wasteful activities within their agencies?	☐	☐	☐	☐	☐
e. If your agency had a program which gave monetary rewards to persons who reported illegal or wasteful activities, would this be a good thing?	☐	☐	☐	☐	☐
f. If you observed an illegal or wasteful activity involving your agency, would you know where to report it?	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5

2. How adequate is the *protection* the Federal Government now offers to employees who report illegal or wasteful activities within their agencies? *(Please "X" ONE box.)*

1☐ More than adequate
2☐ About right
3☐ As adequate as it can be
4☐ Could and should be more adequate
5☐ Not sure

3. How do you feel about the *amount of encouragement* your agency gives to employees who might be inclined to report illegal or wasteful activities within the agency? *(Please "X" ONE box.)*

1☐ Too much
2☐ About right
3☐ Not enough
4☐ Not sure

4. How confident are you that your *supervisor* would not take action against you, if you were to report—through official channels—some illegal or wasteful activity? *(Please "X" ONE box.)*

1☐ Very confident
2☐ Confident
3☐ Less than confident
4☐ Not at all confident
5☐ Not sure

5. How confident are you that *someone above your supervisor* would not take action against you, if you were to report—through official channels—some illegal or wasteful activity? *(Please "X" ONE box.)*

1☐ Very confident
2☐ Confident
3☐ Less than confident
4☐ Not at all confident
5☐ Not sure

6. Do you feel you have enough information about where to report illegal or wasteful activities, if such activities should come to your attention? *(Please "X" ONE box.)*

1☐ Yes, I have more than enough information
2☐ Yes, I have about the right amount of information for now
3☐ No, I would prefer to have more information

7. If you observed or had evidence of an illegal or wasteful activity, which *two* of the following would *most encourage* you to report it? *(Please "X" TWO boxes.)*

1☐ Knowing that I could report it and *not* identify myself
2☐ Knowing that something would be done to correct the activity if I reported it
3☐ Knowing that I would be protected from any sort of reprisal
4☐ Knowing that I could be given a cash reward if I reported it
5☐ Knowing the problem was something I considered very serious
6☐ Knowing that I could report it without people thinking badly of me
☐ Other. *(Please specify on the last page of this questionnaire.)*
(14)

8. Have you heard of the following organizations, and how much do you know about what they are supposed to do if they receive information concerning illegal or wasteful activities? *(Please "X" ONE box after each organization.)*

	I never heard of this organization	I heard of this organization but I know nothing about what they are supposed to do	I have a vague idea of what they are supposed to do	I have a pretty good idea of what they are supposed to do	I have a very good idea of what they are supposed to do
a. The Office of Inspector General or IG "Hot Line" within your agency.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
b. The Special Counsel of the Merit Systems Protection Board	☐	☐	☐	☐	☐
c. The General Accounting Office (GAO).	☐	☐	☐	☐	☐

NOTE: If you have never heard of the Office of Inspector General, please skip Questions 9, 10, and 11.

9. If you were to report an illegal or wasteful activity to the *Office of Inspector General (OIG)* within your agency and request that your identity be kept confidential, how confident are you that the OIG would *protect your identity? (Please "X" ONE box.)*

1☐ Very confident
2☐ Confident
3☐ Less than confident
4☐ Not at all confident
5☐ Not sure

10. If you were to report an illegal or wasteful activity to the *Office of Inspector General* within your agency, how confident are you that the OIG would give careful consideration to your allegations? *(Please "X" ONE box.)*

1☐ Very confident
2☐ Confident
3☐ Less than confident
4☐ Not at all confident
5☐ Not sure

11. If your agency had a policy that *required* you to bypass your supervisor and report any illegal or wasteful activities *directly* to your agency's Office of Inspector General, would this be a good thing for your agency? *(Please "X" ONE box.)*

1☐ Definitely yes
2☐ Probably yes
3☐ Probably not
4☐ Definitely not
5☐ Not sure

NOTE: If you have never heard of the Office of the Special Counsel of the Merit Systems Protection Board, please skip to Section II on this page.

12. If you were to report an illegal or wasteful activity to the *Office of the Special Counsel (OSC)* of the Merit Systems Protection Board, how confident are you that the OSC would give careful consideration to your allegations? *(Please "X" ONE box.)*

1☐ Very confident
2☐ Confident
3☐ Less than confident
4☐ Not at all confident
5☐ Not sure

13. If you were to need protection for having reported an illegal or wasteful activity, how confident are you that the *Office of the Special Counsel* of the Merit Systems Protection Board would *protect you from reprisal*? *(Please "X" ONE box.)*

1☐ Very confident
2☐ Confident
3☐ Less than confident
4☐ Not at all confident
5☐ Not sure

SECTION II

The questions in this section ask about actual situations that you personally observed, experienced or knew about "first hand." We are mainly interested in finding out what Federal employees do with information they may have regarding illegal or wasteful activities in their agencies. We also want to know if employees have experienced some type of reprisal for reporting such information.

14. Some employees are aware of illegal or wasteful activities because it is part of their job to know about such things.

a. Does your job require you to conduct or assist in audits, investigations, program evaluations, or inspections for your agency? *(Please "X" ONE box.)*

1☐ Yes
2☐ No

b. Do you work in an Office of Inspector General? *(Please "X" ONE box.)*

1☐ Yes
2☐ No

(20)

15. **Regardless of whether or not it is part of your job, *during the last 12 months*, have you *personally observed* or obtained *direct evidence* of any of the following activities? *(Please "X" ONE box after each activity.)***

(Note: Do not answer yes if you only read about the activity in the newspaper or only heard about it as a rumor being passed around.)

(Did you observe this or have direct evidence of it during the last 12 months?)

(Activity)	NO	YES, and the total value involved appeared to be: Less than $100	$100 to $999	$1,000 to $100,000	More than $100,000
a. Employee(s) stealing Federal funds.	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5
b. Employee(s) stealing Federal property.	☐	☐	☐	☐	☐
c. Employee(s) accepting bribes or kickbacks.	☐	☐	☐	☐	☐
d. Waste of Federal funds caused by ineligible people (or organizations) receiving Federal funds, goods, or services.	☐	☐	☐	☐	☐
e. Waste of Federal funds caused by buying unnecessary or deficient goods or services.	☐	☐	☐	☐	☐
f. Waste of Federal funds caused by a badly managed Federal program. *(If "yes," please use the last page of this questionnaire to give a brief description of the most badly managed program that you know about.)*	☐ 1	☐ 2	☐ 3	☐ 4	☐ 5

	NO	YES, and it appeared to occur: Rarely	Occasionally	Frequently
g. Employee(s) abusing his/her official position to obtain substantial personal services or favors.	☐ 1	☐ 2	☐ 3	☐ 4
h. Employee(s) giving unfair advantage to a particular contractor, consultant or vendor (for example, because of personal ties or family connections, or with the intent of being employed by that contractor later on).	☐	☐	☐	☐
i. Employee(s) tolerating a situation which poses a danger to public health or safety.	☐	☐	☐	☐
j. Employee(s) commiting a serious violation of Federal law or regulation other than those described above. *(If yes, please use the last page of this questionnaire to give a brief description of the most serious violation that you know about.)*	☐ 1	☐ 2	☐ 3	☐ 4

NOTE: If you indicated "no" to all of the activities listed in question 15, please skip to Section III on page 7.

16. **If you indicated "yes" to one or more of the activities listed in question 15, please select the *one* activity that represents the most serious problem you know about *or* the one that had the greatest impact on you personally and "X" the box of that activity below. *(Please "X" ONE box.)***

1 ☐ Stealing Federal funds.
2 ☐ Stealing Federal property.
3 ☐ Accepting bribes or kickbacks.
4 ☐ Waste caused by ineligible people receiving funds, goods, or services.
5 ☐ Waste caused by unnecessary or deficient goods or services.
6 ☐ Waste caused by a badly managed program.
7 ☐ Use of an official position for personal benefits.
8 ☐ Unfair advantage given to a contractor, consultant, or vendor.
9 ☐ Tolerating a situation or practice which poses a danger to public health or safety.
0 ☐ Serious violation of law or regulation.

(Note: Please answer the following questions in terms of the one activity you selected in question 16 above.)

17. **Is the activity you selected the most serious problem you know about or the one that had the greatest effect on you? *(Please "X" ALL the boxes that apply.)***

1 ☐ This is the activity that I consider the most serious problem.
2 ☐ This is the activity that had the greatest effect on me.

18. **How did you find out about this activity? *(Please "X" ALL the boxes that apply.)***

1 ☐ I personally observed it happening.
2 ☐ I came across direct evidence (such as vouchers or other documents.)
3 ☐ I was told by an employee involved in the activity.
4 ☐ I was told by an employee who was not involved in the activity.
5 ☐ I read about it in an internal agency report.
6 ☐ I found out through some other means not listed above.

19. **Did the activity appear to be caused by any of the following? *(Please "X" ALL the boxes that apply.)***

1 ☐ Employee(s) of this agency.
2 ☐ Employee(s) of some other agency.
3 ☐ Individual(s) receiving Federal funds, goods or services.
4 ☐ Organization(s) receiving Federal funds, goods or services.

(32)

20. Which Federal department or agency did the activity involve? ***(Please "X" ONE box.)***

1☐ Agriculture
2☐ Commerce
3☐ Energy
4☐ Health, Education and Welfare (prior to reorganization)
5☐ Health and Human Services
6☐ Education
7☐ Housing and Urban Development
8☐ Interior
9☐ Labor
a☐ Transportation
b☐ Community Services Administration
c☐ Environmental Protection Agency
d☐ General Services Administration
e☐ National Aeronautics and Space Administration
f☐ Small Business Administration
g☐ Veterans Administration
h☐ Other

21. Did you report this activity to any individual or group? ***(Please "X" ONE box.)***

1☐ Yes ——→ **Please skip to question 23.**
2☐ No

22. If you did *not* report this activity to any individual or group, which of the following statements best describes your reason(s) for *not* reporting it? ***(Please "X" ALL the boxes that apply.)***

1☐ The activity had already been reported by someone else.
2☐ I did not think the activity was important enough to report.
3☐ I did not have enough evidence to report.
4☐ I was not really sure to whom I should report the matter.
5☐ I decided that reporting this matter was too great a risk for me.
6☐ I did not want to get anyone in trouble.
7☐ I did not want to embarrass my organization or agency.
8☐ I did not think that anything *would* be done to correct the activity.
9☐ I did not think that anything *could* be done to correct the activity.
0☐ Some reason not listed above. *(Please specify on the last page of this questionnaire.)*

NOTE: If you did *not* report this activity to any individual or group, please skip to Section III on page 7.

23. Did you report this activity to any of the following? ***(Please "X" ALL the boxes that apply.)***

1☐ Co-workers.
2☐ Immediate supervisor.
3☐ Someone above my immediate supervisor.
4☐ Personnel office.
5☐ The Office of the Inspector General or the IG "Hot Line" within this agency.
6☐ A union representative.
7☐ The Special Counsel within the Merit Systems Protection Board.
8☐ The General Accounting Office.
9☐ A Member of Congress.
0☐ A member of the news media.

24. Did you report the activity because it is a routine part of your job to report such activities (for example, as an auditor, investigator, quality control specialist, etc.)? ***(Please "X" ONE box.)***

1☐ Yes
2☐ No

25. If you reported this activity to sources *within* your immediate work group (that is, the people with whom you work most closely on a day-to-day basis), what effect did it have? ***(Please "X" ONE box.)***

1☐ I did *not* report this activity *within* my immediate work group.
2☐ The problem was resolved.
3☐ The problem was partially resolved.
4☐ The problem was not resolved at all.
5☐ The problem is still under review, but I expect it to be resolved.
6☐ The problem is still under review, but I do *not* expect it to be resolved.
7☐ I am not sure whether any action was taken.

26. If you reported this activity to sources *outside* your immediate work group, what effect did it have? ***(Please "X" ONE box.)***

1☐ I did *not* report this activity *outside* my immediate work group.
2☐ The problem was resolved.
3☐ The problem was partially resolved.
4☐ The problem was not resolved at all.
5☐ The problem is still under review, but I expect it to be resolved.
6☐ The problem is still under review, but I do *not* expect it to be resolved.
7☐ I am not sure whether any action was taken.

(78)

(end card 1)

Card 2
(1-6)

27. If you were identified as the person who reported the activity, what was the effect on you personally? *(Please "X" ALL the boxes that apply.)*

1☐ I was *not* identified as the source of the report.
2☐ I was given credit by my management for having reported the problem.
3☐ Nothing happened to me.
4☐ I had the feeling that my *co-workers* were unhappy with me because I reported the problem.
5☐ I had the feeling that my *supervisor* was unhappy with me because I reported the problem.
6☐ I had the feeling that *someone above my supervisor* was unhappy with me because I reported the problem.
7☐ I received some threats of reprisal for having reported the problem.
8☐ I received an actual reprisal for having reported the problem.

28. *Within the last 12 months,* have you personally *experienced* some type of reprisal or threat of reprisal because of an activity you reported? *(Please "X" ONE box.)*

1☐ Yes
2☐ No ——▶ **Then skip to Section III on page 7.**

(Note: If you have experienced more than one incident of actual or threatened reprisal* within the last 12 months, *please select one experience which is either the most recent or which had the greatest impact on you. Please answer questions 29 through 37 in terms of that experience.)

29. Is the experience you are thinking about a case where: *(Please "X" ONE box.)*

1☐ A threat of reprisal was made but not carried out.
2☐ A threat of reprisal was made and actually carried out in some form.
3☐ Some type of reprisal was actually taken *without a* threat or warning. ——▶ **If this happened, please skip to question 31.**

30. How was the threat made? *(Please "X" ONE box.)*

1☐ Various words or actions *implied* there was the possibility of reprisal, but I was *not* explicitly threatened.
2☐ I was *explicitly* threatened with some type of reprisal.

31. Where were you working when this experience occurred? *(Please "X" ONE box.)*

1☐ Agriculture
2☐ Commerce
3☐ Energy
4☐ Health, Education and Welfare (prior to reorganization)
5☐ Health and Human Services
6☐ Education
7☐ Housing and Urban Development
8☐ Interior
9☐ Labor
a☐ Transportation
b☐ Community Services Administration
c☐ Environmental Protection Agency
d☐ General Services Administration
e☐ National Aeronautics and Space Administration
f☐ Small Business Administration
g☐ Veterans Administration
h☐ Other

32. Did you report the information that caused the reprisal or threat of reprisal to any of the following? *(Please "X" all the boxes that apply.)*

1☐ Co-workers.
2☐ Immediate supervisor.
3☐ Someone above my immediate supervisor.
4☐ Personnel office.
5☐ The Office of the Inspector General or the IG "Hot Line" within this agency.
6☐ A union representative.
7☐ The Special Counsel within the Merit Systems Protection Board.
8☐ The General Accounting Office.
9☐ A Member of Congress.
0☐ A member of the news media.

33. Who threatened or took the reprisal? *(Please "X" ALL the boxes that apply.)*

1☐ Co-workers.
2☐ My immediate supervisor.
3☐ My second level supervisor.
4☐ A level of management or supervision above my second level supervisor.
5☐ Other. *(Please specify on the last page of this questionnaire.)*

(30)

34. Did the reprisal or threat of reprisal take any of the following forms? ***(Please "X" ALL the boxes that apply.)***

(Reprisal Action)	(Was this threat-ened) Yes	No	(Did this Occur) Yes	No
a. Poor performance appraisal.	☐ 1	☐ 2	☐ 3	☐ 4
b. Denial of promotion.	☐	☐	☐	☐
c. Denial of opportunity for training	☐	☐	☐	☐
d. Assigned less desirable or less important duties in my current job.	☐	☐	☐	☐
e. Transfer or reassignment to a different job with less desirable duties.	☐	☐	☐	☐
f. Reassignment to a different geographic location.	☐	☐	☐	☐
g. Suspension from your job.	☐	☐	☐	☐
h. Grade level demotion.	☐	☐	☐	☐
i. Other. *(Please specify on the last page of this questionnaire.)*	☐ 1	☐ 2	☐ 3	☐ 4

35. How was the way you do your job affected by the reprisal or threat of reprisal? ***(Please "X" ALL the boxes that apply.)***

1 ☐ I now ignore instances of wrongful activities that I would not have ignored before.
2 ☐ I do not do my job as well as I did before the actual or threatened reprisal.
3 ☐ I do my job better than I did before the actual or threatened reprisal.
4 ☐ Nothing has changed in the way I do my job.
5 ☐ I applied for and accepted a different job.
6 ☐ I was moved into a different job by my agency.

36. In response to the reprisal or threat of reprisal, did you take any of the following actions? ***(Please "X" ALL the boxes that apply.)***

1 ☐ Complained to a higher level of agency management.
2 ☐ Complained to some other office within my agency (for example, the personnel office or the EEO office).
3 ☐ Complained to the Office of Inspector General within my agency.
4 ☐ Filed a complaint through my union representative.
5 ☐ Filed a formal grievance within my agency.
6 ☐ Filed an EEO (discrimination) complaint.
7 ☐ Filed a complaint with the Office of Special Counsel of the Merit Systems Protection Board.
8 ☐ Filed a formal appeal, or had an appeal filed on your behalf, with the Merit Systems Protection Board
9 ☐ Took an action not listed above.
10 ☐ Took no action. ——► **If this is the case please skip to Section III on this page.**

37. What happened to you as a result? ***(Please "X" ALL the boxes that apply.)***

1 ☐ It got me into more trouble.
2 ☐ It made no difference.
3 ☐ The threat of reprisal was withdrawn.
4 ☐ The reprisal action itself was withdrawn.
5 ☐ Actions were taken to compensate me for the reprisal action.

SECTION III

This last section asks for information we need to help us with the statistical analyses of the survey data and to make sure we have responses from a representative sample of employees. Please answer the following questions regardless of whether you had any specific experience(s) to relate.

38. What is your pay category or classification? ***(Please "X" ONE box.)***

1 ☐ General Schedule and similar (GS, GG, GW).
2 ☐ Wage System (WG, WS, WL, WD, WN, ETC.)
3 ☐ Merit Pay (GM).
4 ☐ Executive (ST, EX, ES, ETC.)

39. What is your pay grade? ***(Please "X" ONE box.)***

1 ☐ 1-4
2 ☐ 5-8
3 ☐ 9-12
4 ☐ 13-15
5 ☐ Over 15 (SES)
6 ☐ Over 15 (not SES)
7 ☐ Other

40. Do you now write performance appraisals for other employees? ***(Please "X" ONE box.)***

1 ☐ Yes
2 ☐ No

(75)

41. Is your current and principal place of work at headquarters or in a field or regional location? ***(Please "X" ONE box.)***

- 1 ☐ Headquarters
- 2 ☐ Field or regional location

42. Where is your current job located? ***(Please "X" ONE box.)***

- 1 ☐ Washington, D.C. (Metropolitan Area)
- 2 ☐ Massachusetts, Vermont, New Hampshire, Maine, Connecticut, Rhode Island
- 3 ☐ New York, New Jersey, Puerto Rico, Virgin Islands
- 4 ☐ Pennsylvania, Delaware, Maryland, Virginia, West Virginia
- 5 ☐ Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida
- 6 ☐ Michigan, Ohio, Indiana, Wisconsin, Minnesota, Illinois
- 7 ☐ Missouri, Iowa, Nebraska, Kansas
- 8 ☐ Texas, Arkansas, Louisiana, Oklahoma, New Mexico
- 9 ☐ North Dakota, South Dakota, Montana, Wyoming, Colorado, Utah
- a ☐ California, Nevada, Arizona, Hawaii
- b ☐ Washington, Oregon, Idaho, Alaska
- c ☐ None of the above

43. In which department or agency do you currently work? ***(Please "X" ONE box.)***

- 1 ☐ Agriculture
- 2 ☐ Commerce
- 3 ☐ Energy
- 4 ☐ Health and Human Services
- 5 ☐ Education
- 6 ☐ Housing and Urban Development
- 7 ☐ Interior
- 8 ☐ Labor
- 9 ☐ Transportation
- a ☐ Community Services Administration
- b ☐ Environmental Protection Agency
- c ☐ General Services Administration
- d ☐ National Aeronautics and Space Administration
- e ☐ Small Business Administration
- f ☐ Veterans Administration
- g ☐ Other

44. What is the highest level of education you have completed? ***(Please "X" ONE box.)***

- 1 ☐ Less than high school diploma.
- 2 ☐ High school diploma or GED (Graduate Equivalency Degree).
- 3 ☐ High school diploma plus some college or technical training.
- 4 ☐ Graduated from college (B.A., B.S., or other Bachelor's Degree.)
- 5 ☐ Graduate or professional degree.

(79)

Please use the space below to write in specific comments, referring to questions in which you have checked "other" as a response.

QUESTION NUMBER	YOUR COMMENTS

This completes the questionnaire. If you have any other comments, please write them here. We appreciate your help in taking the time to answer these questions. Please use the enclosed envelope to return your completed questionnaire.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

PROGRAM INNOVATIONS REPORT

JULY 1981

The White House

"I have recently learned of your volunteer service as a member of the Small Business Administration's Inspector General's Advisory Council and a report just issued by the Council which contains a number of recommendations designed to improve the management and effectiveness of that agency's Disaster Assistance Program.

"It is heartening to know that you and other employees of the Small Business Administration accepted the challenge offered by the Inspector General of working together to develop ways to improve operations in your Agency. Your efforts confirm my belief that conscientious public servants are willing and able to do something about mismanagement in Government programs and operations.

"I am gratified and reassured that the American people are served by the kind of dedicated and concerned professionals that you represent. On behalf of all Americans, please accept my appreciation for a job well done."

Sincerely,

Ronald Reagan

See page 2

FICA AND FUTA TAX REFUND AUDIT

Non-profit organizations participating in the Federal Insurance Contribution Act (FICA) and Federal Unemployment Tax Act (FUTA) programs are free to withdraw from the programs at any time and receive refunds for taxes paid into the funds. Tax law changes in 1976 dictated that non-profit organizations that switch their status from participation to non-participation must pay a certain percentage of the refunds into an employee pension fund. Furthermore, those non-profits whose contributions to the programs were previously paid with Federal or State grant money must repay the applicable government the remainder of the refund. However, no instructions have been issued by the IRS concerning the repayment of the Government's share of the refund.

The Inspector General's office at the Department of Commerce has found instances of the total FICA and FUTA refunds being made to non-profits who then have passed the monies to employees even though the money was originally provided by the Federal Government. The mishandling of the refunds was noticed by the OIG in the Department's Dallas regional office during a review of a private accounting firm's report on an economic development district in Arkansas. A copy of an application for a change in tax status was attached to the report. From this information, the OIG

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discovered that a refund was made to the development group by the Little Rock district office of the IRS. No instructions were included with the refund.

The OIG in Dallas notified the IRS of the error and was informed that the problem would be looked into. A year later, no steps had been taken towards collecting the Government's share of the refund. Commerce again questioned the IRS district office and was told that nothing would be done to recover the money.

In another instance, the IRS asked that part of the refund be placed in an employee pension fund and that the portion of the refund that should be returned to the government be placed on deposit until a decision on the money could be reached. Commerce expects a recovery of the Government's money in this instance. The same situation occurred in Fort Smith, Arkansas, where the Board of Directors of the development group have voted to give all the money to the employees and have stated that it will go before the Contract Appeals Board to uphold its decision. Similar occurrences have been identified in Mississippi and Colorado.

Economic development districts are funded by HHS, HUD, Commerce, DOT, and various other Federal and State agencies. Because a similar situation could involve the funds of any of these agencies, the Inspector General at Commerce will recommend that the IRS issue national guidelines concerning the tax refunds.

The OIG at Commerce has also recommended that the Department issue an internal policy statement requiring the repayment of the funds. Finally, it suggests that other agencies with grant programs include the identification of tax refunds in their audit programs.

As a result of this problem being brought to their attention, the Inspectors General at Treasury and Commerce are planning to work together to solve the tax refund problem. Other agencies interested in aiding in the identification of improperly handled refunds should contact Fred Heim, Jr., Acting Inspector General, Department of Commerce (202/377-5725).

HUD'S ADP MANAGEMENT UNDER REVIEW

On June 2, 1981, HUD entered into an interagency agreement initiated by the Office of the Inspector General with the Federal Computer Performance Evaluation and Simulation Center (FEDSIM) for technical assistance in a major audit of automated data processing in the Department. This unique effort combines recognized technical expertise with OIG audit resources in a comprehensive analysis to evaluate the Department's ADP organizational structure, policies, procedures, and practices for managing

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INNOVATION AND INVESTIGATION AT SBA

New approaches to identifying fraud, waste, and mismanagement are being implemented at the U.S. Small Business Administration. Paul Boucher, Inspector General Designate at SBA, has just released the "Report of the Inspector General's Advisory Council on SBA's Disaster Operations." The report is the first of its kind by the Inspector General's Advisory Council (IGAC). This unique Council, composed of 11 Agency employees, was formed in 1980 by Boucher to give Agency employees a strong voice in recommending improvements in Agency operations and programs.

Development of the Council began with a letter to all SBA employees explaining the focus of the Council and soliciting resumes highlighting the employee's experience in a specific area in which the Agency wanted to make major improvements--in this instance, disaster operations. The next step was to send a questionnaire to

..see "SBA" page 5

ADP activities, and the efficiency and effectiveness of computer equipment utilization. Building from the expert technical reviews, HUD auditors will identify causes and effects of technical operating deficiencies, if any, and recommend appropriate corrective actions and improvements.

FEDSIM assistance will be provided in two phases. The first will be a general review of the HUD ADP environment to identify areas for further evaluation. The review will last about six weeks. The second phase will involve the actual areas selected for further review.

Under the terms of the agreement, OIG staff will actively participate with the technical experts in the application of analytical procedures and techniques for evaluating overall ADP activities. In this manner, the OIG staff will learn and develop skills and capabilities in the use, interpretation, and application of technical tools and techniques for sophisticated reviews of ADP activities.

For additional information on the ADP review, contact Steven A. Switzer, Office of the Inspector General, Department of Housing and Urban Development (202/755-6432).

PRIVATE DEBT COLLECTION SHOWS RESULTS

In 1977, the Department of Education initiated a pilot project in two regional offices with private collection agencies to recover defaulted student loans. The emphasis was on sums that could not be collected through the Federal collection process. In the three years through October 1980, the private collectors collected $110 million of defaulted Guaranteed Student Loans, nearly triple the amount collected in previous years.

A recent study, contracted for the Department, showed that the percentage of accounts for which payments are now being made currently was 60-70% for Federal collectors and 75-85% for private contractors. A GAO study has found that differences in the cost and time expended for each collection, as well as the debt size considered cost effective to pursue to the point of obtaining a court judgement, also favor the use of private agencies. The figures are as follows:

	Government	Private
Cost:	$8.72	$3.50
Time:	1 + years	5 months
Cost Effective Debt Size:	$600.00	$25.00

While these studies show that there is an advantage to the use of private collectors, there are issues which need to be considered when the decision is made to use private firms.

The first issue with which the Department dealt was that private collection firms historically have not undertaken debt collection work for the Federal Government. Therefore, they are not familiar with Government procedures. To overcome this, Education has been working with collection firm trade associations, providing them with the necessary information on Federal practices and procedures.

Perhaps the most perplexing problem which the Department faced was the determination of the size collection firm to use. A study by the State of Ohio Student Loan Agency showed that for a highly mobile population, such as students, large national firms are the most effective. The study showed, however, that those students who do not relocate are better served by local firms. The Department, therefore, had to determine the nature of the population with which it was dealing.

The decision was further complicated by the requirement for set-asides to small business. While small firms may be beneficial in smaller communities where they are familiar with the area, centralized recordkeeping and accounting in larger firms can often outweigh the advantages of the smaller firm. Most large firms use the telephone to collect and have local offices should problems arise. Large firms, which have national coverage capabilities, are also advantageous since they are able to service the student's loan throughout its life when the student relocates.

A third issue the Department encountered was determining if it is possible to break up the RFP package to allow participation by smaller collection agencies. The Department concluded that each RFP had to reflect the population to be addressed.

The contractual relationship between the agency and the collection firm was the final issue encountered by the Department. Traditionally, many collection firms have had an open procedure on how they contract to undertake collection work. Some have worked for major retailers for years at a time on a mere handshake or a simple two page contract. Government procurement regulations do not permit such practices.

To deal with these and other issues, the Department found it necessary to develop a detailed work statement for contracting with private collection agencies. The program office with input from the OIG included some of the following points in the work statement; statement of responsibilities, statement on the Privacy Act, variations in work procedure due to the Federal environment, and a statement on the Fair Debt Collection Practice Act (although it is not required that the Federal Government adhere to the Act, the Department included this as it is not the Federal Government actually carrying out the collections). Specific evaluation criteria were also included in the RFP to avoid any differences between the contractor and the Department when the work was evaluated.

Currently, the Department is phasing down the direct Federal collection effort and starting to attempt to find new private collection agencies to contract with. Contractors will be paid a percentage of the actual collections. This payment approach will need to be tested as the cases turned over to the private firms are those that have generally been "worked to death" by the Department and the dollars recovered to dollars expended ratio will not be as high as might otherwise be expected. For this reason, the data may be interpreted to indicate that the program is not as successful as the original data suggested.

For further information on the use of private collection firms, contact Nat Colluzi, Chief, Guaranteed Student Loan Branch, Office of Student Financial Assistance, Department of Education (202/245-8122).

COMPUTER MATCHING SYSTEM HELPS VA LOCATE 66,000 DEBTORS

Compensation, pension, education, and related benefits of over $15 billion were budgeted at the Veterans Administration for FY 1981. As of March 31, 1981, education receivables amounted to $135.4 million. VA matched compensation, pension, and education records with OPM employment records, using work address and SSN as input, to identify civilian Federal employees from throughout the government who owe the VA money from erroneously paid benefits, unpaid educational debts, or home loan defaults.

VA originally estimated it would make only 10,000 matches but in actuality it located 66,454 employees in 64 agencies who owed the VA almost $37 million, most of the monies due were of educational benefit overpayments. The overpayments were caused by the veteran's or a school's failure to notify the VA of changes in enrollment status.

The VA has reactivated the 36,000 accounts not already in its centralized accounts receivable system. These persons will be contacted and due process followed to collect or otherwise resolve the debts. If the employees are unresponsive, their Federal employers will be asked for assistance. So far, eleven percent of the updated receivables have been liquidated, either by immediate repayment, incremental repayments, loan forgiveness, records correction, or legal proceedings. The remaining 30,000 accounts are already on the accounts receivable system.

Matches against OPM records can be used to identify persons on Federal payrolls who misuse other Federal programs. They are particularly successful in programs in which benefits are not paid directly to the individuals because no current address is available to institute debt resolution.

The President's Council on Integrity

and Efficiency is working to expand the use of matching systems throughout the Government and additional matching projects have already been identified. One example is a full scale match between the U.S. Postal Service employment records and the Department of Education loan default records.

For more information on computer matching, contact Frank Sato (202/389-2915) or Tom McBride (202/447-8001), Inspectors General at V.A. and Labor, respectively.

****

"SBA" cont'd. from p. 2

all respondents requesting comments on several disaster program areas. Selection of the IGAC members followed an evaluation of the applicant's experiences and responses to the questionnaire. Screening was also used to determine the applicants' willingness to work.

Council members came from 9 of the 10 SBA regions and possessed an average of about 10 years of experience with SBA, much of it in disaster work. Some of the members have served in management positions.

At the first Council meeting, members developed a study agenda, formed three subcommittees, made study assignments, and set established deadlines for completion or preliminary reports. In the course of the next several months, members conducted research and prepared discussion papers. At the second meeting, the Council considered all discussion papers and revised them to reflect broader areas of agreement.

The final report identified the problems of the Disaster Assistance Program as recurring, systematic difficulties rooted in the basic priority, structure, and organizational design of the program. It then presented numerous far-reaching recommendations to ease the operational and administrative problems said to result from years of agency failure to recognize the significance and magnitude of disaster lending.

The total effort was a major success for SBA. In submitting the report, Boucher noted, "The IGAC was created so that top SBA management could learn from experienced employees what the Agency's problems are and what the most practical solutions might be. The experience and dedication of our public servants is a valuable resource which is now available to use through the IGAC. We plan to continue the Council initiative through the Office of the Inspector General." He has already begun to solicit members for the next Council. The subject area will be debt collection.

SBA Administrator Michael Cardenas said, "This report from knowledgeable SBA employees will be of great help in strengthening the program. The Inspector General and I will continue to look at SBA personnel as a valuable resource for improving other programs." President Reagan recognized the value of the effort when he wrote the letter appearing on the first page of this report to each of the Council members.

In short, the benefits to establishing an employees' Advisory Council can be substantial. For instance,

- The agency and the Inspector General are able to obtain considerable worthwhile advice from knowledgeable people at no cost.
- A long-standing problem can be selected and addressed simply and economically.
- There can be a major favorable impact on employee morale since its advice is being sought by senior management.
- An opportunity for Presidential recognition is created.
- Employers are encouraged to think in terms of agency problems rather than their own more narrow concerns.
- It generates understanding and support for the role of the Inspector General.
- The approach allows the Inspector General to leverage scarce resources.

Agencies should consider whether such a commitment is appropriate for their situation.

Additional information can then be obtained from Mr. Paul Boucher, Inspector General, U.S. Small Business Administration, 1441 L Street, N.W., Washington, D. C. 20416.

Addressing

FRAUD, WASTE AND ABUSE

A Summary Report of Inspector General Activities

JULY 1, 1981

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

July 1, 1981

The following "Summary of Inspector General Activities" is the first effort to develop a consolidated report on Inspector General activity. The purpose of the report is to highlight the government-wide nature of that activity and to begin to provide a base for assessing the activities and accomplishments of the program.

The 1978 Inspector General Act calls for semi-annual reports to Congress, but wisely does not prescribe the format for the reports. The program has evolved sufficiently that we can begin to collect comparative and trend data. However, for this first report neither comparative nor trend data are available. The report covers the six month period — October 1980 thru March 1981. This reporting period lacks any data from the U.S. Agency for International Development, and the Departments of Energy, Health and Human Services, State, and Treasury because these agencies report on a fiscal or calendar year. In addition, the data presented in this summary is often incomplete because of differences in methodology of reporting by the Inspectors General.

The charts in this report graphically portray the broad range of Inspector General activities aimed at eliminating fraud, waste and abuse in the Federal Government. Highlighting the importance of the Inspector General program and enhancing its effectiveness is a theme of the President's Council.

The Council is in the process of designing standards for the consistent reporting of Inspector General activities so that comparative data will be available for the Executive Branch in the future. Future summaries will reflect those standards.

The current and future success of the program owes a great deal to President Reagan for his personal leadership and to the leaders of the Congress who have given special support to the program — Senators Roth and Eagleton, and Congressmen Brooks, Horton, Fountain, and Brown.

Edwin L. Harper
Chairman
President's Council on Integrity
and Efficiency

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Introduction

The President's Council on Integrity and Efficiency was created by President Reagan on March 26, 1981. The Council is a vital part of the President's effort to provide the most effective and efficient government to the nation. In signing the Executive Order to establish the Council, the President pledged to eliminate fraud, waste, and mismanagement in government -- "...we are going to follow every lead, root out every incompetent, and prosecute any crook we find who is cheating the people of this nation."

The Council is composed of sixteen legislatively authorized Inspectors General as well as the Deputy Attorney General, the Executive Assistant Director of Investigations at the FBI, the Director of the Office of Personnel Management, and designees of the Departments of Treasury and Defense and the U.S. Agency for International Development. The Council is chaired by the Deputy Director of the Office of Management and Budget.

The President has directed the Council to develop plans for coordinating government-wide activities to attack fraud, waste, and mismanagement. The ability to utilize the Council for inter-agency activities and for planning Inspector General audit functions helps foster improved communications and strengthens the President's program. For instance, the Council is planning a series of inter-agency projects focusing on problems and issues that occur in several agencies and can benefit from a government-wide solution.

The high visibility the program currently enjoys is not an accident. Improving the efficiency and effectiveness of the government is an important undertaking that requires the constant vigil of employees and citizens alike. The President and the Council believe a government-wide effort is necessary to achieve this objective.

Accordingly, this "Summary Report of Inspector General Activities" has been developed to present the combined accomplishments of the Inspectors General during the first six months of Fiscal Year 1981. It serves the two objectives of maintaining high program visibility and providing a single source of information. It also illustrates the savings and positive results achieved by each of the Inspectors General.

This is the first summary of the Inspector General Reports to Congress. Differences in terminology and an inevitable absence of specific data have caused problems with the compilation of Inspector General activities. Terminology differences and special explanations for agencies data should therefore be noted. These problems will be remedied in future summaries.

The report does provide a base for assessing the impact of Inspector General activities on some of the problems of fraud and mismanagement facing the Federal Government. It should be noted that the data contained in this report are for nineteen disparate entities. The programs which the IGs are assessing differ; therefore, the types of IG audits, investigations, and resources required to carry out the IG work will also differ. For example, the benefit programs of the Department of Agriculture such as food stamps cannot be compared to the grant programs of the Department of Transportation such as Urban Mass Transportation Administration (UMTA). These differences also affect the types of data collected and the methodologies for collecting data.

Conclusions, therefore, should not be drawn regarding Inspector General productivity or effectiveness. Since the diverse reporting by the Inspectors General make it impossible to compare activities, such comparisons would be inappropriate.

Most of the data are presented in the Summary in a tabular format to emphasize the government-wide nature of the Inspector General program. The accompanying narratives explain the terminology and numbers within each chart. Special accomplishments and problems encountered by the Inspectors General are also presented in narrative form.

Those wanting additional information on, or copies of, the Inspector General Reports to Congress should contact departmental Inspectors General directly.

Finally, a special note of thanks is due to the Inspectors General and their staffs who helped bring this information together.

CHARTS

KEY.

- – Indicates the Data is Currently Unavailable.
- * Indicates a Different Agency Reporting Time Frame
  - U.S. Agency for International Development and the Department of the Treasury report by Fiscal Year (1980 - October 1979 to September 1980).
  - The Departments of Health and Human Services, Energy, and State report by calendar year (1980 - January 1980 to December 1980).

Audit: Number of Reports Issued

In addition to total reports issued, the table is broken down into internal and external audit reports. Internal audits, conducted by the office of the Inspector General, are independent reviews of agency programs and operations. External audits may include both Inspector General and contract audits and are reviews or examinations made of the records and performance of grantees, borrowers, and other contractors in accordance with generally accepted auditing standards. Note footnote explanations.

AUDITS

NUMBER OF REPORTS ISSUED October 1980 - March 1981

	Internal Audits	External Audits	Total Reports Audits
Agriculture	----	243	243
Agency for International Development	*	*	*
Commerce	20	1,350	1,370
Community Services Administration	15	732	747
Defense	11,092	28,546 a/	39,638
Education	3	2,758	2,761
Energy	*	*	*
Environmental Protection Agency	19	770	789
General Services Administration	187	244	431
Health and Human Services	*	*	*
Housing and Urban Development	63	261	324
Interior	46	290	336
Labor	5	175	180
National Aeronautics and Space Administration	15	16 b/	31
Small Business Administration	----	----	489
State	*	*	*
Transportation	47	1,041	1,088
Treasury	*	*	*
Veterans Administration	72	227	298

a/ Represents reports issued by the Defense Contract Audit Agency.
b/ Only those reports which represent net savings.
---- Indicates the data is currently unavailable.
* Indicates data is not included because agency has a different reporting period.

Audit: Questioned Costs Sustained/Costs Disallowed

An important function of the Inspectors General is the questioning of agency contracts, grants and general costs of operation. Disallowed costs or questioned costs sustained, are costs which clearly are not allowable, i.e., they are ineligible by law, contract, Federal or local agency policies or regulation.

This table documents the questioned costs or disallowed costs that were agreed to or sustained by the agency after examination. The dollar amounts are directly attributable to Inspector General audit activities. The footnotes reflect differences in reporting or the meaning of these totals.

AUDITS

QUESTIONED COSTS SUSTAINED OR COSTS DISALLOWED
October 1980 - March 1981

	Questioned Costs Sustained or Costs Disallowed
Agriculture	$ 2,500,000
Agency for International Development	*
Commerce	$ 4,100,000
Community Services Administration	$ 15,500,000[a]
Defense	-----
Education	$ 8,800,000
Energy	*
Environmental Protection Agency	$ 15,100,000
General Services Administration	-----
Health and Human Services	*
Housing and Urban Development	$ 52,600,000
Interior	$ 3,200,000
Labor	-----
National Aeronautics and Space Administration	$ 30,900,000
Small Business Administration	$ 410,000[b]
State	*
Transportation	$ 9,024,000
Treasury	*
Veterans Administration	-----

[a] Questioned costs for 1971-1981.
[b] Includes contract audits only.
----- Indicates the data is currently unavailable.
* Indicates data is not included because agency has a different reporting period.

Audit: Recoveries

Audit recoveries include the restoration, restitution or recovery of money or property that was lost through a crime, mismanagement, or noncompliance with applicable laws and regulations. The table shows audit recoveries documented and reported during the reporting period.

AUDITS

AUDIT RECOVERIES
October 1980 - March 1981

	Audit Recoveries
Agriculture	$ 4,200,000
Agency for International Development	*
Commerce	-----
Community Services Administration	0
Defense	-----
Education	$ 4,800,000
Energy	*
Environmental Protection Agency	-----
General Services Administration	$ 52,700,000
Health and Human Services	*
Housing and Urban Development	$ 14,300,000
Interior	$ 100,000
Labor	$ 4,300,000
National Aeronautics and Space Administration	-----
Small Business Administration	$ 100,000
State	*
Transportation	-----
Treasury	*
Veterans Administration	-----

---- Indicates the data is currently unavailable.
* Indicates data is not included because agency has a different reporting period.

Audit: Unresolved Audit

Unresolved audits represent Inspector General audits pending as of the closing date of the reporting period. The value of these unresolved audits is also contained in the table.

AUDITS

UNRESOLVED AULITS
October 1980 - March 1981

	Number of Audits Unresolved at Close of Reporting Period	Value of Audits
Agriculture	598	$ 409,000,000
Agency for International Development	*	*
Commerce	1,186	$ 125,000,000
Community Services Administration	602	$ 45,600,000
Defense	-----	-----
Education	2,535	$ 68,000,000
Energy	*	*
Environmental Protection Agency	973	$ 126,700,000
General Services Administration	517	$ 98,700,000
Health and Human Services	*	*
Housing and Urban Development	3,251[a/]	$ 282,500,000
Interior	83	$ 27,100,000
Labor	794	$ 303,000,000
National Aeronautics and Space Administration	144	$ 9,900,000
Small Business Administration	-----	-----
State	*	*
Transportation	339	$ 108,000,000
Treasury	*	*
Veterans Administration	35	$ 502,000

a/ Number of individual findings.
---- Indicates the data is currently unavailable.
* Indicates data is not included because the agency has a different reporting period.

Investigations: Number of Cases Opened and Closed

The table documents the number of cases opened and closed through investigative action during the reporting period only. The figures reflect investigative activities, but do not show the entire picture because of the nature of investigative work and the resultant overlap from different reporting periods.

INVESTIGATIONS

NUMBER OF CASES OPENED AND CLOSED
October 1980 - March 1981

	Cases Opened	Cases Closed
Agriculture	953	874
Agency for International Development	*	*
Commerce	109	91
Community Services Administration	174	27
Defense	----	6,354
Education	220	124
Energy	*	*
Environmental Protection Agency	27	67
General Services Administration	366	326
Health and Human Services	*	*
Housing and Urban Development	1,089	1,072
Interior	----	----
Labor	284	272
National Aeronautics and Space Administration	173	169
Small Business Administration	136	103
State	*	*
Transportation	146	72
Treasury	*	*
Veterans Administration	44	50

---- Indicates the data is currently unavailable.
* Indicates data is not included because the agency has a different reporting period.

Investigations: Referrals

Investigative referrals are actions that require additional investigative work, prosecution or disciplinary action. These cases are referred to investigatory and prosecutory agencies at the State, local or Federal level, such as the Department of Justice, or to agencies for personnel or administrative remedies. Footnotes reflect definitions or numerical explanations.

INVESTIGATIONS

INVESTIGATIVE REFERRALS
October 1980 - March 1981

	Total a/ Referrals	Referrals to:			
		Justice	FBI	Agency	Other
Agriculture	----	310	----	----	----
Agency for International Development	*	*	*	*	*
Commerce	15	15	----	56	----
Community Services Administration	----	17	----	58	----
Defense	431 b/	----	----	----	----
Education	32	32	----	----	----
Energy	*	*	*	*	*
Environmental Protection Agency	11	----	----	----	----
General Services Administration	524	137	----	387	----
Health and Human Services	*	*	*	*	*
Housing and Urban Development	277	62	215	0	25
Interior	25	25	----	----	----
Labor	155	75	0	74	6
National Aeronautics and Space Administration	48	----	21	----	14
Small Business Administration	168	20	148	148	----
State	*	*	*	*	*
Transportation	35	35	10	12	0
Treasury	*	*	*	*	*
Veterans Administration	----	13	----	30	----

a/ "Total Referrals" - do not always agree with destination referred totals due to differences in the way records are maintained by the Inspectors General.

b/ Defense - partial data, information is not available for the entire department.

---- Indicates the data is currently unavailable.

* Indicates data is not included because the agency has a different reporting period.

Investigations: Cases Declined, Indictments, Convictions and Cases Pending

Investigative cases referred always reach a decision or action step. The table documents this step. Cases declined represents the number of cases referred to the Department of Justice which are declined for prosecution. Indictments and convictions are self-explanatory and represent the numerical total of indictments and convictions completed during the reporting period. Cases pending is a catch all for cases awaiting Department of Justice action or grand jury decisions.

INVESTIGATIONS

INVESTIGATIVE ACTIVITIES: CASES DECLINED, INDICTMENTS, CONVICTIONS AND PENDING
October 1980 - March 1981

	Declined	Indictments	Convictions	Pending
Agriculture	258	381	235	----
Agency for International Development	*	*	*	*
Commerce	5	3	3	8
Community Services Administration	----	0	3	----
Defense	----	----	----	----
Education	22	5	12	----
Energy	*	*	*	*
Environmental Protection Agency	6	2	1	85
General Services Administration	23	41	26	750
Health and Human Services	*	*	*	*
Housing and Urban Development	314	88	51	2,166
Interior	5	16	11	5
Labor	48	40	26	455
National Aeronautics and Space Administration	29	7	10	13
Small Business Administration	142	6	10	187
State	*	*	*	*
Transportation	14	40	31	256
Treasury	*	*	*	*
Veterans Administration	7	3	3	8

---- Indicates the data is currently unavailable.

* Indicates data is not included because the agency has a different reporting period.

Litigation: Recoveries and Penalties

The table shows the recoveries and penalties retrieved through the litigative process. These totals are judgments rendered and do not necessarily reflect the total monetary recoveries by the Federal Government.

LITIGATION

RECOVERIES AND PENALTIES
October 1980 - March 1981

	Recoveries and Penalties
Agriculture	$ 6,000,000
Agency for International Development	*
Commerce	-----
Community Services Administration	$ 20,000
Defense	-----
Education	$ 3,000
Energy	*
Environmental Protection Agency	-----
General Services Administration	$ 2,300,000
Health and Human Services	*
Housing and Urban Development	$ 347,000
Interior	$ 231,000
Labor	$ 1,228,098
National Aeronautics and Space Administration	$ 29,000
Small Business Administration	$ 6,100,000 a/
State	*
Transportation	$ 2,400,000
Treasury	*
Veterans Administration	87,000

a/ Does not include penalties.
---- Indicates the data is currently unavailable.
* Indicates data is not included because the agency has a different reporting period.

Hotline: Calls, Letters and GAO Referrals

The table indicates the total number of hotline calls and letters received during the reporting period. The table also documents the referrals received from the General Accounting Office during the reporting period. Note footnote explanations. -

HOTLINE ACTIVITIES

HOTLINE: CALLS, LETTERS AND GAO REFERRALS
October 1980 - March 1981

	Number of Calls/Letters	Number of GAO Referrals
Agriculture	105	25
Agency for International Development	*	*
Commerce	22	8
Community Services Administration	49[a]	10
Defense	148	97
Education	29	5
Energy	*	*
Environmental Protection Agency	7	11
General Services Administration	571	33
Health and Human Services	*	*
Housing and Urban Development	114	32
Interior	171	16
Labor	523	26
National Aeronautics and Space Administration	97[b]	1
Small Business Administration	55	1
State	*	*
Transportation	156	17
Treasury	*	*
Veterans Administration	153	31

a/ Only hotline calls.
b/ Total through June 26, 1981.
---- Indicates the data is currently unavailable.
* Indicates data is not included because the agency has a different reporting period.

Hotline: Disposition of Hotline Calls, Letters and Referrals

Once received, hotline calls, letters and General Accounting Office referrals must be examined and further action, if warranted, taken. The table shows a break-down of such disposition. "No Further Action/Closed" reflects cases where the Inspector General has completed action and/or no further action is necessary. The category also includes cases which the Inspector General closes without additional investigation or action. "Referred to Audit/Investigation" includes cases referred to the Office of Inspector General audit or investigation unit as well as those sent to the FBI or the Department of Justice. "Referred to Program Management" reflects cases dealing with program specific problems or cases deserving administrative action or penalty. "Other" represents any cases outside the above mentioned referral parameters.

HOTLINE ACTIVITIES

DISPOSTION OF HOTLINE CALLS, LETTERS AND REFERRALS
October 1980 - March 1981

		Referred to:		
	No Further Action/Closed	Audit/Investigation	Program Management	Other
Agriculture	72	25	78	1
Agency for International Development	*	*	*	*
Commerce	----	----	----	----
Community Services Administration	10	0	23	----
Defense	----	----	----	----
Education	34	20	14	0
Energy	*	*	*	*
Environmental Protection Agency	9	6	----	----
General Services Adminstration	175	38	33	325
Health and Human Services	*	*	*	*
Housing and Urban Development	35	34	45	0
Interior	64	19	83	21
Labor	433	55	35	0
National Aeronautics and Space Administration	17	68	1	11
Small Business Administration	----	8	19	14
State	*	*	*	*
Transportation	26	91	36	0
Treasury	*	*	*	*
Veterans Administration	274	15	153	16

---- Indicates the data is currently unavailable.
* Indicates data is not included because the agency has a different reporting period.

EXCERPTS

The following excerpts were taken from the most recent Inspector General Semi-Annual Reports to Congress in the interest of providing anecdotal material. The cases are not supposed to be representative, but the examples show the wide variety of Inspector General audits and investigations. For agency-specific cases, the Semi-Annual Reports offer numerous additional summaries.

Large dollar amounts of questioned or disallowed costs are especially striking when they represent a significant percentage of the total dollars involved in any given audit. These dollars do not represent recoveries which will be achieved by the government, but they are a significant step in the audit process in identifying potential problems. Two examples follow:

- An audit of New York City's Community Development Block Grant, funded by HUD, disclosed that of $179.3 million in costs charged to the City's program during the audit period, $116 million or about 65% was disallowed or considered questionable. These costs were either unreasonable, inappropriately charged to the program, or failed to comply with the program's intent.

- An audit by the Inspector General at the Department of Education disclosed that $12.3 million in Title I funds were improperly used to provide general aid to education rather than to meet the special needs of those educationally deprived children identified as most in need of special assistance. The auditors recommended that the State repay $12.3 million and strengthen its procedures for the review of Title I applications and activities to assure that future projects meet Title I requirements.

One way that the effectiveness of the Inspector General program can be enhanced is by Inspectors General involving program officials in audits and investigations. The following example from the Department of Health and Human Services carries that idea one step farther.

- Project Baltimore was a joint investigation by the HHS Inspector General, the Immigration and Naturalization Service (INS), and the Social Security Administration (SSA) focusing on criminal conspiracies to obtain social security numbers for illegal aliens. The project began in 1978 after a joint investigation by the HHS Inspector General and INS culminated in the convictions of nine individuals, including an SSA employee who admitted receiving $25,000 in bribes to fraudulently process SSA applications. Over 100 similar conspiracies have been identified and are in varying stages of investigation around the country. During 1980, the Inspector General, and the Commissioners of SSA and of INS signed a memorandum of accord providing for the computerization of evidence in these cases.

To date, the project has produced over 50 criminal convictions including four for SSA employees. Sentences have ranged from probation to four years imprisonment and fines up to $10,000. The crimes include bribery, mail fraud, visa fraud, the concealment, harboring or shielding of illegal aliens, submission of false INS documents, and forgery of official seals. The efforts of this project also led to deportation proceedings for over 600 illegal aliens.

Preventing misuse of federal funds is a major focus of the Inspector General program. The Inspectors General often work with agency program officials to develop mechanisms to detect vulnerability to fraud or mismanagement and to minimize the opportunities for misuse of federal funds. For example, both Commerce and Small Business Administration have programs to check loan and grant applicants prior to awarding Federal monies.

- Over $8 million in questionable loans have been avoided this year as a result of information obtained through the applicant check program at Commerce. At the request of the Economic Development Administration (EDA), the Commerce Inspector General ascertained that one applicant for EDA assistance totaling over $3 million is currently under FBI investigation. As a result of that finding, EDA is withholding funds for this project pending completion of the FBI investigation. The Inspector General pilot work with EDA has proved so successful that Commerce is expanding the name check program on a trial basis to encompass assistance projects of the Minority Business Development Agency. The IG is suggesting that the procedures be adopted in other Commerce agencies as well.

- 3,600 Small Business Administration (SBA) loan applications checked with the FBI between October 1980 and March 1981 disclosed unfavorable information. Of this number, 17 loan applications totaling $2,986,459 were declined by SBA for policy reasons as a result of character eligiblity determinations. An additional 38 cases totaling $2,696,515 were declined based on either a history of criminal offenses or the current parole/probation status of the loan applicant. The remainder required no further action.

Misuse of Federal funds and abuse of benefit programs can take some unusual turns. For example:

- An on-going food stamp trafficking investigation in Puerto Rico in coordination with local police has identified numerous persons purchasing food stamps for cash. During one investigation, $26,524 in food stamps were exchanged for $11,060 in cash and several automobiles. The subject and a confederate were arrested as they were exchanging $7,500 in food stamps for a stolen 1980 Chevette automobile and $2,000. This same subject was planning to purchase

$150,000 in food stamps but the transaction was not completed. The subject of another investigation was arrested after purchasing $3,184 in food stamps for $1,950. Further indictments are expected.

The advanced technology of automated data processing can be both a contributor to problems of managing Federal funds and an aid to overcoming problems. The problems can occur when the computer is used to manipulate data or to access restricted information. An example uncovered by the HHS Inspector General follows:

- The Social Security Administration maintains computer records of earnings and benefit payments for millions of wage earners and beneficiaries. The IG found that access to this data (by using data terminals or other such means) appeared relatively unrestricted -- creating a security problem. More specifically, the IG found that SSA had not developed standards specifying the level of access and procedures for the guidance of security personnel. In addition, the IG determined that SSA did not adequately safeguard computer tapes. Because of these problems, the privacy and integrity of the information recorded on these tapes -- which includes confidential data on annual wages and SSA benefit payments -- could be compromised. The SSA has indicated that corrective actions will be taken.

On the other hand, computers have been used to identify individuals owing money to the government and to screen for ineligible recipients of federal benefits. An example of the use of computers for screening purposes follows:

- In a recently completed audit, the Agriculture Department's Office of the Inspector General matched the income of a sample of 350 households participating in the Food Stamp program with the Florida Employment Security Bureau income records. Projecting the findings to the approximately 86,000 participating households, they found that 32,000 or about 37%, had some type of error. The Inspector General estimates that the total dollar loss to the program was about $1 million for a one month period. Of the errors causing program losses, 70% were due to underreporting income. Florida is now in the process of refining its computer system. Program officials project that by August 1981, they will have the capability in Miami to compare income reported by the applicant at the time of certification to income reported to the State Employment Security Bureau. This will enable State officials to detect an applicant's underreporting of income before benefits are issued. It should also act as a deterrent to recipient underreporting.

Federal monies spent overseas are also subject to misuse as shown in the following report from the AID Inspector General.

o Auditors found that a $68.5 million commodity importing program, which was intended to demonstrate the effectiveness of private enterprise in furthering economic development, had been exploited by and for the benefit of five family groups. Of the $56.5 million in program funds which were audited, these family groups had obtained $25.2 million or 45%. The audit revealed that more than $19 million of this $25.2 million had been obtained through intentional circumvention of program regulations and import fund limitations. The family groups had also misused bank letters of credit and improperly obtained document approvals by the U.S. Agency for International Development mission. The auditors concluded that poor procedures, ineffective controls, and deficient monitoring were permitting the family groups easy access to and unauthorized use of program funds. As a result of the IG recommendations, AID management has already suspended one of the five groups from further participation in any AID-financed programs. AID management is also working towards establishment of the controls and implementing procedures which are necessary if this program is to meet its objectives.

LEGISLATION & REGULATIONS

The Inspectors General are required, under Section 4(a)(2) of the Inspector General Act of 1978, to review existing and proposed legislation and regulations relating to the programs and operations of their departments. The IGs make recommendations in their Semi-Annual Reports to Congress about the impact of such rules and legislation on the economy and efficiency in the administration of programs, and on the prevention and detection of fraud and abuse in their departments.

Legislation is also reviewed in order to develop collective Inspector General (or Council) positions on bills of particular significance to the Inspector General community. These areas include, for example, program fraud sanctions, single audit requirements, and audit follow-up requirements. A consensus of Inspector General opinion last year resulted in more favorable audit provisions in S. 878 (re-introducted this session as S. 807 Federal Assistance Improvement Act of 1981) which dealt with single audits of federal grantees.

In reviewing regulations, particular attention is given to ensuring that regulations:

- o Conform to the Offices of Inspector General mandate to reduce program vulnerabilities to fraud, abuse, or waste; and
- o Possess standards to ensure accountability, enforcement capability, and compatibility with related departmental programs.

The Inspectors General also assist in the development of specific legislation to help assure that program provisions minimize vulnerability to fraud and abuse.

The following are examples of legislation with government-wide applicability that were reviewed by the Inspectors General during the reporting period:

- H.R. 1526, Federal Managers' Accountability Act of 1981.
- H.R. 350, Financial Integrity Act of 1981.
- S. 586, To Amend the Privacy Act of 1974.
- H.R. 749, H.R. 1243, and S. 591, Debt Collection Act of 1981.
- S. 45, Federal Assistance Reform Act of 1981.
- H.R. 316, Limitations on Government Recordkeeping Requirements and Action Act of 1981.
- S.878, Federal Assistance Reform.

The comments by Inspectors General on these bills, and on other legislation and regulations, are found in their Semi-Annual Reports to Congress.

APPENDIX

President's Council on Integrity & Efficiency

Office of Management and Budget
Edwin Harper
Deputy Director and Chairman of the Council

Department of Agriculture
John Graziano
Inspector General (Designate)

U.S. Agency for International Development
Herbert Beckington
Inspector General

Department of Commerce
Sherman Funk
Inspector General (Designate)

Community Services Administration
K. William O'Connor
Inspector General (Designate)

Department of Defense
Joseph H. Sherick
Assistant to the Secretary of Defense for
 Review and Oversight

Department of Education
James B. Thomas Jr.
Inspector General (Designate)

Department of Energy
James Richards
Inspector General (Designate)

Environmental Protection Agency
Not Appointed

General Services Administration
Joseph Sickon
Inspector General (Designate)

Department of Health and Human Services
Richard Kusserow
Inspector General

Department of Housing and Urban Development
Charles Dempsey
Inspector General (Designate)

Department of Interior
Richard Mulberry
Inspector General (Designate)

Department of Justice
Edward Schmults
Deputy Attorney General

Department of Justice - Federal Bureau of Investigation
Francis (Bud) Mullen
Executive Assistant Director of Investigations

Department of Labor
Thomas McBride
Inspector General (Designate)

National Aeronautics and Space Administration
June Brown
Inspector General (Designate)

Office of Personnel Management
Donald Devine
Director

Small Business Administration
Paul Boucher
Inspector General

Department of State
Robert Brown
Inspector General

Department of Transportation
Joseph Welsch
Inspector General (Designate)

Department of Treasury
Eugene Essner
Inspector General (Acting)

Veterans Administration
Frank Sato
Inspector General (Designate)

Offices of Inspector General

Department of Agriculture
Room 247E Main Building
Washington, D.C. 20250

U.S. Agency for International Development
Room 5644 State
Washington, D.C. 20523

Department of Commerce
Room 3709 Main Commerce
Washington, D.C. 20230

Community Services Administration
1200 19th Street N.W.
Washington, D.C. 20506

Department of Defense
Assistant to the Secretary of Defense
for Review and Oversight
Room 3E1081 Pentagon
Washington, D.C. 20301

Department of Education
Room 4022 Switzer Building
330 C Street, S.W.
Washington, D.C. 20202

Department of Energy
Room A249
1000 Independence Avenue S.W.
Washington, D.C. 20585

Environmental Protection Agency
401 M Street, S.W.
Washington, D.C. 20460

General Services Administration
Room 5340
18th and F Street N.W.
Washington, D.C. 20405

Department of Health and Human Services
Room 5250 North Building
Washington, D.C. 20410

Department of Housing and Urban Development
Room 8256
451 7th Street S.W.
Washington, D.C. 20410

Department of Interior
Interior Building
Room 5342
19th and C Street N.W.
Washington, D.C. 20240

Department of Labor
200 Constitution Avenue N.W.
Washington, D.C. 20210

National Aeronautics and Space Administration
Room 6075 (Code W)
Washington, D.C. 20546

Small Business Administration
Room 1018
1441 L Street N.W.
Washington, D.C. 20416

Department of State
Room 6821 State
Washington, D.C. 20520

Department of Transportation
Room 9210
400 7th Street SW
Washington, D.C. 20590

Department of Treasury
Room 2412 Main Treasury
Washington, D.C. 20220

Veterans Administration
Room 1100 McPherson Building
1425 K Street N.W.
Washington, D.C. 20420

Agency Hotline Numbers

Agriculture
800-424-9121
202-472-1388

Commerce
800-424-5197
202-724-3519

Community Services Administration
800-424-8005
202-653-5430

Defense
800-424-9098
202-693-5080

Education
FTS 755-2770
202-755-2770

Energy
202-252-4073

Environmental Protection Agency
202-245-3090

General Accounting Office
800-424-5454
202-633-6987

General Services Administration
800-424-5210
FTS 566-1780

Health and Human Services
FTS 472-4222
202 472-4222

Housing and Urban Development
202-472-4200

Interior
800-424-5081
202-343-2424

Justice
202-833-3365

Labor
800-424-5409
202-357-0227

Merit Systems Protection Board
202-653-7107

National Aeronautics and Space Administration
800-424-9183
202-755-3402

Small Business Administration
202-653-7557

State
202-632-3320

Transportation
800-424-9071
202-755-1855

Treasury
202-566-6900

Veterans Administration
FTS 389-5394
202-389-5390

- Agencies that Report on a Calendar Year Basis
- Agencies that Report on a Fiscal Year Basis

July 1, 1980

The five agencies which are not reported in the major tables are included in the following charts. The data for these agencies covers a twelve month period rather than the six months in the major tables. The same cautions which apply to the data for the major tables must also be applied to these tables -- differences in terminology and absence of specific data have caused problems with compilation; these are disparate entities with differing programs; and the IGs use different methods for collecting the data. Therefore, comparisons should not be made among these agencies nor between these agencies and those included in the major tables.

Agencies that Report on a Calendar Year Basis

AUDITS

NUMBER OF REPORTS ISSUED
January 1980 - December 1980

	Internal Audits	External Audits	Total Reports Audits
Energy	297 a/	1054	1351
Health and Human Services	----	5200	5200 b/
State	18	13	31

QUESTIONED COSTS SUSTAINED OR COSTS DISALLOWED
January 1980 - December 1980

	Questioned Costs Sustained or Costs Disallowed
Energy	$ 18,000,000
Health and Human Services	$ 126,500,000
State	$ 45,000

AUDIT RECOVERIES
January 1980 - December 1980

	Audit Recoveries
Energy	$ 2,300,000
Health and Human Services	-----
State	-----

UNRESOLVED AUDITS
January 1980 - December 1980

	Number of Audits Unresolved at Close of Reporting Period	Value of Audits
Energy	264	$ 4,600,000
Health and Human Services	1804	$ 69,000,000
State	10	$ 500,000

INVESTIGATIONS

NUMBER OF CASES OPENED AND CLOSED
January 1980 - December 1980

	Cases Opened	Cases Closed
Energy	236	200
Health and Human Services	353	289[c/]
State	41	21

INVESTIGATIVE REFERRALS
January 1980 - December 1980

	Total Referrals[d/]	Referrals to:			
		Justice	FBI	Agency	Other
Energy	106	58	20	22	6
Health and Human Services	----	119	97	----	----
State	13	3	----	10	----

INVESTIGATIVE ACTIVITIES: CASES DECLINED, INDICTMENTS, CONVICTIONS AND PENDING
January 1980 - December 1980

	Declined	Indictments	Convictions	Pending
Energy	38	12	9	2[e/]
Health and Human Services	----	137	145	685
State	2	----	0	2

RECOVERIES AND PENALTIES
January 1980 - December 1980

	Recoveries and Penalties
Energy	$ 194,000
Health and Human Services	$ 4,700,000
State	-----

HOTLINE ACTIVITIES

HOTLINE: CALLS, LETTERS AND GAO REFERRALS
January 1980 - December 1980

	Number of Calls/Letters	Number of GAO Referrals
Energy	60	26
Health and Human Services	1106	114
State	---- f/	3

DISPOSTION OF HOTLINE CALLS, LETTERS AND REFERRALS
January 1980 - December 1980

		Referred to:		
	No Further Action/Closed	Audit/Investigation	Program Management	Other
Energy	3	53	26	4
Health and Human Services	224	----	----	79
State	----	----	----	----

a/ Audits by IG auditors and Energy field offices.

b/ Includes 1323 audits performed for other agencies under OMB's system of audit cognizance for colleges and universities.

c/ Includes Department of Education cases transferred.

d/ "Total Referrals" - do not always agree with destination referred totals due to differences in the way records are maintained by the Inspectors General.

e/ An additional 34 cases are pending prosecutive opinion at Justice.

f/ Hotline statistics reported under Investigative Cases Opened.

Agencies that Report on a Fiscal Year Basis

AUDITS

NUMBER OF REPORTS ISSUED
October 1979 - September 1980

	Internal Audits	External Audits	Total Reports Audits
Agency for International Development	146	50	196
Treasury	---	---	124

QUESTIONED COSTS SUSTAINED OR COSTS DISALLOWED
October 1979 - September 1980

	Questioned Costs Sustained or Costs Disallowed
Agency for International Development	-----a/
Treasury	-----

AUDIT RECOVERIES
October 1979 - September 1980

	Audit Recoveries
Agency for International Development	-----a/
Treasury	$ 159,000,000

UNRESOLVED AUDITS
October 1979 - September 1980

	Number of Audits Unresolved at Close of Reporting Period	Value of Audits
Agency for International Development	87	$ 1,022,000
Treasury	-----	-----

INVESTIGATIONS

NUMBER OF CASES OPENED AND CLOSED
October 1979 - September 1980

	Cases Opened	Cases Closed
Agency for International Development	97	121
Treasury	3,501	3,194

INVESTIGATIONS (CONT'D)

INVESTIGATIVE REFERRALS
October 1979 - September 1980

	Total b/ Referrals	Referrals to: Justice	FBI	Agency	Other
Agency for International Development	30	17	1	11	1
Treasury	----	2,687	----	507	----

INVESTIGATIVE ACTIVITIES: CASES DECLINED, INDICTMENTS, CONVICTIONS AND PENDING
October 1979 - September 1980

	Declined	Indictments	Convictions	Pending
Agency for International Development	2	0	0	112
Treasury	----	----	----	----

LITIGATION

RECOVERIES AND PENALTIES
October 1979 - September 1980

	Recoveries and Penalties
Agency for International Development	$ 275,000
Treasury	-----

HOTLINE ACTIVITIES

HOTLINE: CALLS, LETTERS AND GAO REFERRALS
October 1979 - September 1980

	Number of Calls/Letters	Number of GAO Referrals
Agency for International Development	---- c/	7
Treasury	----	----

DISPOSTION OF HOTLINE CALLS, LETTERS AND REFERRALS
October 1979 - September 1980

		Referred to:		
	No Further Action/Closed	Audit/Investigation	Program Management	Other
Agency for International Development	---- c/	----	----	----
Treasury	----	----	----	----

a/ New management information system implemented. Data unavailable.
b/ "Total Referrals" - do not always agree with destination referred totals due to differences in the way records are maintained by the Inspectors General.
c/ Does not have a hotline system.

THE PRESIDENT'S CAMPAIGN AGAINST WASTE AND FRAUD

FACT BOOK

JULY 1981

PREFACE

The materials in this pamphlet provide general background on the President's campaign against fraud, waste and mismanagement in government.

For information on Inspectors General activities in specific departments contact that department's information officer listed in this booklet under "who can provide background on specific stories?"

For general information on the activities surrounding the campaign against fraud, waste and mismanagement contact:

Robin Raborn
Deputy Director for Public Affairs
Office of Management and Budget
Room 253 OEOB
Washington, D.C. 20503
(202) 395-3080

THE PRESIDENT'S CAMPAIGN AGAINST WASTE AND FRAUD

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Who are the Inspectors General?

The IGs are the core of an effective effort to eliminate waste, fraud and mismanagement and to improve the way in which Federal programs operate by acting as independent overseers of their agency's activities.

The strength of the President's Council, as well as the overall antifraud and waste program, is heavily dependent on the quality of the individual Inspector selection process used puts emphasis on those candidates who have outstanding professional skills, a reputation for integrity and a non-partisan approach to their work. The candidates come from within and outside the Federal Government and have training in the areas of auditing, law/investigation and/or management. These individuals are the core of a well managed and effective effort to eliminate waste, fraud and mismanagement and to improve the way in which Federal programs operate.

The following chart lists the current I.G.s by agency along with a brief summary of their experience:

INSPECTORS GENERAL RECOMMENDATIONS

Department	Nominee	Most Recent Position	Primary Expertise			Years of Federal Service
			Auditor	Lawyer/Investigator	Other	
Agriculture	John B. Graziano	Asst. J.G. for Investigations Dept. of Commerce		X		29 Years
Commerce	Sherman M. Funk	Special Asst. to the Dir., Office of Small & Disadvantaged Business Utilization, Dept. of Energy			General Manager	23 Years
Community Services Administration	William O'Connor	Special Counsel for Interagency Coordination/Staff & Dir. Exec. Grp. Staff		X		23 Years
Education	James D. Thomas	I. G. - Education	X			21 Years
Energy	James R. Richards	General Counsel Vice President - National Legal Center for the Public Interest		X		14 Years
Environmental Protection Agency	under FBI clearance review					
General Services Administration	Joseph A. Sickon	Asst. I.G. for Audit HUD	X			23 Years
Health and Human Services	Richard P. Kusserow	FBI Agent - specialist in welfare fraud		X		14 Years

INSPECTORS GENERAL RECOMMENDATIONS

Department	Nominee	Most Recent Position	Primary Expertise			Years of Federal Service
			Auditor	Lawyer/Investigator	Other	
Housing and Urban Development	Charles L. Dempsey	I.G. - HUD		X		11 Years
Interior	Richard Mulberry	Cert. Public Acct. Fox and Company	X			none
Labor	Thomas F. McBride	I.G. - Agriculture		X		19 Years
National Aeronautics & Space Administration	June G. Brown	I.G. - Interior	X			9 Years
Small Business Administration	Paul R. Boucher	I.G. - SBA		X		17 Years
State	Robert Brown	Political Advisor to the Commander and Chief of SHAPE			General Manager	20+ Years
Transportation	Joseph P. Welsch	Vice Pres. for Finance of the U.S. Railway Assoc.			Financial Manager	16 Years
Veterans Administration	Frank S. Sato	I.G. - Transportation	X			16 Years

What are some specific examples of effective IG activities?

Some illustrations of IG activities that have produced savings are:

- Improving internal financial management and operational controls (e.g., payroll, imprest funds, etc.).
- Strengthened control over use of consultants and procurement in general, including contracting procedures.
- Resolution of audit report findings -- GAO identifies over $14 billion in unresolved audit findings (1/23/81).
- Withdrawal of excess cash related to letter of credit arrangements.
- Reduction of deposit delays by financial institutions, costing government interest losses.
- Tightening of computer security safeguards.
- Improving property control systems (including control of property purchased with Federal funds by grantees).
- Imposition of civil as well as criminal penalties, fines, judgements, restitution actions.
- Exchange of department suspension lists.
- Vulnerability analyses of agency activities.
- Improving eligibility determination procedures for grants and loans, including agency matching efforts.

What is the background of the Inspectors General program?

Under the Inspectors General Act of 1978 twelve independent offices of Inspectors General were created. The twelve included USDA, Commerce, HUD, Interior, Labor, Transportation, CSA, EPA, NASA, SBA and VA.

The 1978 Act provides considerable independence to Inspectors General because of several factors:

- They are presidential appointments;
- they have a formal reporting relationship to their agency heads along with a specific reporting responsibility to Congress;
- they report to the agency head and not to operating or staff officials whom they audit;
- they are independent of operational responsibilities; and
- they have formal communications with the Executive Office of the President/Office of Management and Budget, the Department of Justice, and the FBI via the President's March 26, 1981, Executive order on Integrity and Efficiency in Federal Programs.

Prior to 1978 several departments had statutory IGs. Currently there are 16 IGs based on the 1978 model. The Administration is working with the Congress to extend the 1978 Act to Defense, Justice, Treasury and AID.

Are there plans for extension of the IG Act into departments and agencies not already covered?

Yes. The Administration is working with the Congress to extend statutory coverage of the Inspectors General program to Defense, Justice, Treasury and the Agency for International Development in a manner that recognizes the unique national security and law enforcement responsibility of some of these agencies.

What are the resources used in supporting the IG program?

The adequacy of resources for Inspectors General operation is always an issue, perhaps even more so at a time when the President has recommended substantial Government-wide budget reductions as an important element in the Economic Recovery Program. Reflecting the Administration's strong concern for the Inspectors General program these steps have been taken to provide adequate resources for the battle against waste and fraud:

- Total staffing and funding for the statutory Inspector General program have been increased in both fiscal years 1981 and 1982 over FY 80 actual figures.
- Every individual agency's fiscal resources will grow in FY 82 over FY 80 except for CSA (which is being phased out).
- Personnel resources in FY 81 and FY 82 will increase in all but one IG office, Agriculture, other than CSA.

Statistics support the notion the IG program is worth the dollars expended. In the first six months of FY 81 there was an average of $5.5 in questioned costs for every budgetary dollar spent. Other statistics from the first semi-annual FY 81 report include:

- As a result of IG audits, a total of $142 million were questioned and sustained by agency management in the first six months of 1981.
- The IGs issued over 16,000 audit reports.
- Over 10,000 investigative cases were closed, resulting in over 632 indictments and over 400 convictions.
- Reported actual dollar recoveries total more than $98 million.
- IG recommendations resulted in cost avoidance of over $300 million.

What is the President's Council on Integrity and Efficiency?

- Established March 26, 1981, to provide administration leadership and continuity to the Inspectors General program.

- The chairmanship of the Council is within the Office of Management and Budget and its members include all IGs, the agencies to which the IG Act is being extended (Defense, Treasury, Justice, AID) the FBI, the Department of Justice and OPM.

- Emphasis by the Council is centered on:

  - Standards for the management, operation and conduct of Inspector General and similar operations in all agencies

  - Efforts to develop a corps of well-trained and highly skilled auditors and investigators

  - Comprehensive plans for Government-wide activities attacking fraud and waste

  - Joint projects involving many agencies in special audits and investigations

  - Assuring that all of these efforts are accomplished with consistency so that the Federal Government speaks with one voice on fraud and waste matters

- Actions by the President's Council:

  - Follow-up on Merit Service Protection Board report to ensure employees awareness of and trust in the IGs

  - Identification of projects to be undertaken by interagency teams

  - Orientation programs at Quantico for the IGs

  - Creation of committees that parallel functions of the IGs

How can Federal employees and the public report waste and fraud?

Enlistment of Federal employees and citizens to report knowledge of fraud and waste and to suggest improvements in management practices is essential to a fully developed campaign. To facilitate this much needed input hotlines have been established in the IGs offices for citizens and Federal employees to report instances of waste and fraud. The President's Council is working on strategies to reassure that whistleblowing is both appropriate and does play a vital role in the program.

Agency Hotline Numbers

Agriculture
800-424-9121
202-472-1388

Commerce
800-424-5197
202-724-3519

Community Services Administration
800-424-8005
202-653-5430

Defense
800-424-9098
202-693-5080

Education
FTS 755-2770
202-755-2770

Energy
202-252-4073

Environmental Protection Agency
202-245-3090

General Accounting Office
800-424-5454
202-633-6987

General Services Administration
800-424-5210
FTS 566-1780

Health and Human Services
FTS 472-4222
202-472-4222

Housing and Urban Development
202-472-4200

Interior
800-424-5081
202-343-2424

Justice
202-833-3365

Labor
800-424-5409
202-357-0227

Merit Systems Protection Board
202-653-7107

National Aeronautics and Space Administration
800-424-9183
202-755-3402

Small Business Administration
202-653-7557

State
202-632-3320

Transportation
800-424-9071
202-755-1855

Treasury
202-566-6900

Veterans Administration
FTS 389-5394
202-389-5390

Who can provide background on specific stories of waste, fraud and mismanagement?

Every department who has an IG also has a communications coordinator for the fraud and waste campaign. The coordinators are kept up-to-date on breaking stories and activities concerning their department. If you need additional details from a department contact:

Communication Coordinators
Fraud and Waste Campaign

Agriculture	Lucius Free, Assist. IG for Admin. OIG-USDA	447-6915
AID	Herb Harmon, Director Public Affairs	632-9170
CEQ	Kathy Plowman, Acting Chairwoman	395-4506
Commerce	Malcolm Barr, Director of News Relations	377-3142
CSA	Paula Hayes, Management Analyst	633-3611
Defense	John Becher, Chief Defense News Branch	697-2082
Education	Anpy Bouchey	245-8233
Energy	Carol Bauman Deputy Press Secretary	252-5730
EPA	Byron Nelson, Director, Public Affairs	
	Joan Wolfe, Special Assist. to the Administrator	755-0700
GSA	Leo Brady, Complaints Officer-OIG	566-0145
	Paul W. Newton/Asst. Admin. for External Affairs	566-1297
HHS	Bob Wilson, Public Affairs, OIG	742-3152

HUD	Paul A. Adams Deputy IG	755-6431
HUD	Ralph Dannheisser, PIO	755-6980
Interior	Kathy O'Neil, OIG	343-4356
Justice	Bob Stevenson, Assist. Director, Public Affairs	633-2015
Labor	Nanette Blandin, OIG	523-6740
	Paul Williams, Information Office	523-7316
NASA	Miles Waggoner, Chief Public Information Service	755-8341
	William O'Donnell, Chief Media Services Branch	755-3936
SBA	Bob Dietsch, Director Public Affairs	653-6832
State	Philip Harrick, Assistant IG	632-8842
Transportation	Tom Blank, Special Assist. to the Director, PA	426-4570
Treasury	Alvin Hattal, Liaison Officer, Public Affairs	566-8381
USTR	David F. Demarest, Director, Public Affairs	395-4647
VA	Larry Moen, Deputy Assist. Adminstrator, Office of Information Services	389-2443

MANAGEMENT IMPROVEMENT INITIATIVES

I. Eliminating wasteful spending on government periodicals, pamphlets, and audiovisual products.

A study is now being conducted by the Executive branch departments and agencies on the use and cost of government produced periodicals, pamphlets, and audiovisual products. On April 20, 1981, the President ordered the heads of all Federal departments and agencies to impose a moratorium on all production and duplication of new materials. A comprehensive report and cost control plan are due to the Office of Management and Budget by July 15, 1981. A full report on this effort is expected by August 1981.

Agencies were instructed to conduct a comprehensive review to eliminate products that are not essential to the accomplishment of agency missions and to install control systems to prevent future abuses and waste in this area. The moratorium will be lifted when an agency has installed its cost control system.

This project is an example of the use of an internal control system to identify and prevent waste. A model control plan was developed and discussed with persons in each agency responsible for acquiring audio-visuals and publications, the Inspectors General, and agency Assistant Secretaries for Management. Based on the positive reception of this approach, development of similar internal control models is planned for other cross-cut functions and operations, initially in administrative and overhead areas.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

FACT SHEET

MORATORIUM ON ALL PRODUCTION AND PROCUREMENT OF NEW AUDIOVISUAL PRODUCTS AND PUBLICATIONS

Summary: President Reagan today ordered the heads of all Federal departments and agencies to impose an immediate moratorium on all production and procurement of new audiovisual products and publications. Additionally, he ordered a review of existing materials to eliminate superfluous items and asked that all departments and agencies submit a comprehensive report on projected savings by July 15, 1981.

BACKGROUND

- Over $100 million a year is spent on the production and duplication of audiovisual products alone, not including related labor and distribution costs. About half of this amount is spent on new productions. There are no reliable estimates of total costs of printed materials like pamphlets and magazines.
- Reviews of spending on materials for public relations, promotion, and advertising have been conducted recently by some agencies. The results indicate potential for significant savings from a comprehensive, government-wide review.

ACTIONS ORDERED BY PRESIDENT REAGAN

President Reagan asked the heads of agencies and departments to impose an immediate moratorium on the production and procurement of new audiovisual products, pamphlets, and periodical publications so that a comprehensive review could be conducted on all new and existing materials.

- He instructed the Director of the Office of Management and Budget to issue guidelines for the moratorium and to assist the agencies in developing plans to control future spending in this area.

- All agencies and departments are required to submit a report on their reviews with estimated savings no later than July 15, 1981.
- The moratorium will apply specifically to production and procurement of all new audiovisuals including films, film strips, video-tapes, audio-tapes, slide sets, and mixed media productions. New periodicals include journals, magazines, and similar publications. New pamphlets include all printed publications of 50 copies or more for distribution to the public, usually enclosed in paper covers.

EXPECTED SAVINGS

Potential savings from cutbacks on new and existing audiovisual and printed materials cannot be accurately projected at this time. The results of this review, which are due by July 15, 1981, will produce the first government-wide estimate of total production costs of periodicals, pamphlets, and audiovisual products.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release April 20, 1981

STATEMENT BY THE PRESIDENT

Today, I am asking the heads of all Federal departments and agencies to impose an immediate moratorium on the production and procurement of new audiovisual aids and government publications. The Federal Government is spending too much money on public relations, publicity, and advertising. Much of this waste consists of unnecessary and expensive films, magazines, and pamphlets.

I am keeping the pledge I made to this country to cut out wasteful spending by the Federal Government. While we have a duty to keep the citizens of this country accurately and fully informed about government programs and activities, we should not use this as a license to produce films, pamphlets, and magazines that do not truly serve the public interest.

Over the past few months, many of you have sent examples to us of publications and pamphlets, most of them unsolicited, that you felt were useless and a waste of the taxpayer's dollars. We are grateful for this contribution to our efforts to eliminate waste in this area. Additionally, some Federal agencies have already conducted their own reviews of public relations activity. Their investigations indicate that there is potential for significant savings from a review of this type in all our departments and agencies.

I am asking the heads of agencies and departments to impose a government-wide moratorium on these activities so that a comprehensive review of current and planned spending may be conducted. I am asking the head of each department and agency to develop specific plans to prevent abuses in the future. I have instructed the Director of the Office of Management and Budget to issue procedures and guidelines to carry out the directive, to assist agencies in developing plans, and to monitor the savings. I am requesting that all departments and agencies begin their reviews immediately and report their progress and plans no later than July 15, 1981.

During these difficult economic times, we cannot afford to waste time and money on activities that have limited benefit to the people of this country. Controlling spending on public relations, publicity, and advertising is an important contribution to our overall goal of cutting out waste in the Federal Government.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

April 21, 1981

BULLETIN NO. 81-16

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Elimination of Wasteful Spending on Government Periodicals, Pamphlets, and Audiovisual Products

1. Purpose. This Bulletin provides procedures and guidelines for eliminating unnecessary Federal spending for the development and printing of periodicals and pamphlets, and the production or procurement of audiovisual products.

2. Authority. The Budget and Accounting Act of 1921, as amended; the Federal Property and Administrative Services Act of 1949, as amended; and 44 U.S.C. 1108.

3. Background. On April 20, 1981 the President directed the heads of Executive Branch agencies to impose a moratorium on Federal spending for new periodicals, pamphlets, and audiovisual products within their agencies. The President also instructed the Office of Management and Budget (OMB) to issue guidelines for the moratorium, to assist the agencies in developing specific plans to control spending in these areas and to review and approve the plans developed by the agencies. (See Attachment A to this Bulletin.)

4. Policy. Each Executive Branch agency shall eliminate unnecessary Federal spending for the development and printing of periodicals and pamphlets (including those published as part of a contract), and for the production or procurement of audiovisual products (including those used in radio and television advertising).

Each agency shall limit the number and copies of periodicals, pamphlets, and audiovisual products to those essential to the accomplishment of agency missions while minimizing the Government's costs to produce or acquire those that are essential.

5. General guidelines. In carrying out the President's directive, the head of each agency shall:

a. Apply the moratorium specifically to the development and printing of all new periodicals and new pamphlets, and the production, purchase and lease or rental of all new audiovisual products, as described in Attachment B to this Bulletin.

The moratorium is not intended to apply to valid contracts already entered into by the agencies, or to extensions or renewals of existing contracts, leases or rentals that continue approved activities and where the quantities and unit prices have not been increased by contract modifications. The moratorium also is not intended to apply to in-house productions already in progress; however, no new productions are to be initiated.

b. Conduct a comprehensive review of all existing periodicals, pamphlets, and audiovisual products and those planned for fiscal years 1981 and 1982 to identify and eliminate those that are duplicative and wasteful.

c. Develop a plan that is consistent with the policies and guidelines in this Bulletin for controlling the production of periodicals, pamphlets and audiovisual products.

d. As soon as possible, but no later than July 15, 1981, report to OMB on the reductions in periodicals, pamphlets, and audiovisual products that result from the comprehensive review and transmit to OMB a plan to install new or improved agency controls.

6. Exemptions from the moratorium. Upon determination by the agency head, the following categories may be exempted from the moratorium:

a. Audiovisual information produced or collected exclusively for the purposes of law enforcement and intelligence surveillance, reconnaissance, or information gathering.

b. Production and broadcasts of the American Forces Radio and Television Service (AFRTS) and the Voice of America (VOA).

c. Periodicals, pamphlets, and audiovisual information resulting from safety or criminal investigations, or other evidentiary legal procedures.

d. Production of X-rays, microfilm, and microfiche.

e. Unedited recording of scientific experiments in which the end product is necessary to document the research results.

f. Audiovisual information used to document surgical procedures or augment patient records.

g. Productions having a security classification of "secret" or higher.

h. Materials concerned with direct readiness-related training of military personnel and military recruiting.

i. Productions for the sole purpose of explaining U.S. policies to foreign audiences.

j. Periodicals, pamphlets, or audiovisual products that are specifically described in and mandated by law.

k. Additional exemptions may be granted upon determination by an agency head that such actions are necessary to assure that essential services are provided and mandatory provisions of law are carried out. When the agency head makes such a determination, he or she should notify the Director of the Office of Management and Budget by letter that such an exemption is to be granted.

7. Implementation of general guidelines.

a. Moratorium. The head of each agency shall issue instructions that assure that the moratorium is effective immediately and is continued until the comprehensive review has been conducted and an agency plan for controlling future costs, approved by OMB, has been installed.

b. Comprehensive review. The head of each agency shall conduct a comprehensive review of all existing periodicals, pamphlets, and audiovisual products and those planned for fiscal years 1981 and 1982. In that review, each agency shall:

(1) Eliminate those periodicals, pamphlets, and audiovisual products that are not essential to accomplishment of agency missions.

(2) For those that are essential:

  (a) reduce the number of copies to be printed or reproduced to the minimum necessary;

  (b) conduct cost comparisons with existing in-house audiovisual activities in accordance with OMB Circular No. A-76 to insure production by the most cost-effective mode (in-house or contract); and

  (c) minimize Federal spending by recovering costs, e.g., through user fees, wherever possible.

(3) Determine the additional savings in fiscal years 1981 and 1982 that result from the comprehensive review. The base from which savings shall be calculated will be the estimates for these items that are reflected in the 1982 Budget Revisions that were transmitted to Congress on March 10, 1981 and agency justifications to the Congress in support of the revised budget. (See section 8 for reporting requirements.)

c. Agency control systems. The head of each agency shall propose new or improved control systems to carry out the policies and guidelines in this Bulletin. Proposed agency control systems must meet the following criteria before the plans to install them will be approved by OMB:

(1) The need for periodicals, pamphlets, and audiovisual products must be confirmed by higher management before procurement is requested. Factors such as relationship to agency mission, cost, timeliness, potential audience size, and alternate means of communication should be considered.

(2) The agency control systems should provide for monitoring at policy levels of agency management above those which previously had been assigned monitoring functions. Monitoring offices should not have operational responsibilities for the printing of periodicals and pamphlets or the production or procurement of audiovisual products.

(3) The agency control systems must be directly linked to those agency operations that are covered by OMB Circular Nos. A-3, A-76, and A-114. Specifically, the agency control systems shall be in compliance with:

(a) the policies and procedures governing Government periodicals as prescribed by OMB Circular No. A-3;

(b) the policies and procedures governing the mode of operation (in-house and/or contract) for commercial or industrial activities (including audiovisual activities) as prescribed by OMB Bulletin No. 81-15 and OMB Circular No. A-76;

(c) the policies and procedures for audiovisual activities as prescribed by OMB Circular No.

A-114, such as mandatory title checks, pre-production Federal Audiovisual Production Reports, post-production Federal Audiovisual Production Reports, and cost and production statistics for all productions that have been included in the National Audiovisual Center's Annual Audiovisual Report.

(4) The agency procurement systems must be designated as control points to assure that Circular Nos. A-3, A-76, and A-114 and Bulletin No. 81-15 requirements are met.

(5) Field offices must be required to make frequent cost and production statistical reports to agency headquarters.

(6) The agency control systems must cover all audiovisual productions, periodicals, and pamphlets, including categories that are exempted from the moratorium.

d. Agency actions. The agency shall:

(1) Review model control plans now being developed by OMB to assist agencies in developing their own control plans. The model control plans will be available for agency review by May 31, 1981.

(2) Develop a plan to install the proposed agency control system. The plan shall include a strategy and timetable for installation.

(3) Transmit three (3) copies of the agency plan to OMB for approval.

(4) Install the new or improved agency control systems.

When the systems have been installed, the agency head shall notify OMB and may lift the moratorium.

8. Reporting requirements. No later than July 15, 1981, each agency shall submit a report on the estimated savings that will result from the comprehensive review. The report shall be prepared in the format of the exhibit to this Bulletin. A copy of the plan to install the proposed agency control systems shall be attached to the report.

Agencies should be prepared to provide the back-up data for the estimated savings by major bureau, appropriation account, and subprogram area, if required by OMB.

9. Use of savings. Dollar savings generated from reductions will be applied to other approved program activities within the same appropriation in the following order of priority:

a. To offset the need for mandatory program supplemental appropriations or amendments that could otherwise be submitted to the Congress under the provisions of the Antideficiency Act, 31 U.S.C. 665(e).

b. To reduce supplementals for increased pay costs for 1982.

However, where the reductions result in withholding of appropriations from obligation, the reporting requirements prescribed by the Impoundment Control Act of 1974 apply, as set forth in OMB Circular No. A-34 and OMB Bulletin No. 75-15. In such cases, rescission proposals or deferral reports will be prepared and submitted to OMB for inclusion in a special message on rescissions and deferrals.

10. Information contact. Technical inquiries regarding the moratorium, exemptions, or control plans should be addressed to Bill McQuaid, Management Improvement and Evaluation Division (395-5193). Other inquiries should be directed to the OMB representative responsible for reviewing the agency's budget estimates.

11. Sunset date. This Bulletin will expire on September 30, 1982.

David A. Stockman
Director

Attachments

Attachment A
Bulletin No. 81-16

THE WHITE HOUSE
WASHINGTON

April 20, 1981

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: Eliminating Wasteful Spending on Government Periodicals, Pamphlets, and Audiovisual Products

The Federal Government is spending too much on public relations, publicity, and advertising. Much of this waste can be traced to unnecessary magazines, pamphlets, and films produced by the government and paid for by taxpayers. We now spend over $100 million a year on the production and duplication of audiovisual products alone. This does not include the related expenses of Federal personnel or the cost to distribute these products.

While we must keep the public accurately informed about Federal programs and activities, I want you to weed out superfluous magazines, pamphlets, films, and public service announcements, especially those that are designed primarily to improve the image of a Federal program or agency.

I am asking each of you to impose an immediate moratorium on the production and procurement of new audiovisual products and the printing and distribution of new periodicals and pamphlets. Additionally, I want you to conduct a comprehensive review of all current and planned activities in this area and develop specific plans for controlling costs in the future. A report on these spending control plans and projected savings should be submitted to the Office of Management and Budget by July 15, 1981.

I am instructing the Director of the Office of Management and Budget to issue procedures and guidelines for the moratorium and to assist you in developing plans to control spending in the future.

Ronald Reagan

Attachment B
Bulletin No. 81-16

LIST OF ITEMS COVERED BY THE MORATORIUM ON PRODUCTION AND PROCUREMENT OF CERTAIN PERIODICAL PUBLICATIONS, PAMPHLETS AND AUDIOVISUAL PRODUCTS

The moratorium required by this memorandum applies to the items defined below:

A-3 and Related Definitions

(1) The term "journals, magazines, periodicals, and similar publications" (hereinafter called periodicals) will be construed to refer to publications issued semiannually or more often for the purpose of disseminating useful information with continuing policy as to format, specification, content, and purpose. In accordance with the Government Printing and Binding Regulations, published by the Joint Committee on Printing, the term periodical "shall be construed as not applying to strictly administrative reports, memoranda, and similar materials, or to strictly statistical materials, and information required exclusively for the official use of the issuing office or service in the transaction of its routine business. Such information shall be construed as being required exclusively for the use of the issuing office or service in the transaction of its routine business if not more than 2,000 copies, or not more than 10 percent of the total quantity printed, whichever is lesser, are for free distribution to other than the issuing department, office, or establishment, its officially established auxiliary organizations, and other individuals and organizations required to be kept informed in the transaction of the routine business of the department, office, or establishment." These exceptions are construed to cover laws, regulations, instructions, opinions, decisions, official notices, circulars, and internal information bulletins.

(2) The exception above for "strictly statistical materials" does not apply to a periodical which includes statistics from sources other than the agency issuing the publication, or which includes analytical or interpretive text. The exception does apply to a report which is the medium for issuing statistics for a single series and its components.

(3) The term "pamphlets" will be construed to include all agency publications of 50 copies or more for distribution to the public that are printed and bound, generally fewer than 80 pages in length, and usually enclosed in paper covers including those pamphlets obtained through contract with printers, consultants and others.

(4) The use of the term "printing" will be construed to mean reproduction by those methods which are defined as printing in the Joint Committee Regulations, whether printed at the Government Printing Office or elsewhere.

A-114 Definitions

a. Agency: As used in this Circular and Standard Form 203, agency means any department or independent establishment of the Executive Branch of the Federal Government.

b. Audiovisual Products: Material containing sound or visual imagery for conveying a message; refers to slide sets, film strips, motion pictures, television, including spot announcements (film, video-tape and disc), audio recording including spot announcements (tape and disc), and mixed media (any combination of two or more media) productions.

Audiovisual production should include the following:

1. In-house:

a. A production should be reported as in-house if the products and services to produce the audiovisual program were supplied directly by the staff of the using agency. An audiovisual program is produced in-house if the actual production is performed directly by agency staff.

b. A production should also be reported as in-house if the products and services to produce the audiovisual program were provided for the using agency by another Federal agency.

2. Contracts:

A production should be reported as a contract if a commercial source provides the products or services to produce the audiovisual program for the agency through a contract or purchase order.

All audiovisual programs produced in Government-owned/Contractor-operated facilities should be reported in this category.

3. Mixed production:

A production is reported as a mixed production if, first, part of the products or services used to produce the audiovisual program are provided directly by the staff of the using agency, and second, part of the products and services used to produce the program are provided to the agency by a commercial source.

4. Audiovisual productions should include, but not be limited to:

a. Public Service Announcements (in any media format).

b. Productions made for the purposes of research documentation, motivation, training, public and internal information, and the transfer of technology.

c. Audiovisual programs produced as a report accompanying a research and development project.

d. Audiovisual programs produced as documentation of public events which are saved for future use by the agency.

5. Off-the-Shelf:

Report any purchase of finished commercial productions for agency use. This includes the purchase of rights and preprint materials, as well as materials with modifications. Audiovisual programs purchased for use in training also should be included.

Examples of the kinds of categories that are covered by this moratorium are listed below. This list is not intended to be all-inclusive.

a. Theatrical, interpretive, and entertainment audiovisual productions, including animated productions.

b. Public service announcements, periodicals, and pamphlets.

c. Productions specifically designed for foreign distribution and consumption, except those that serve to explain U.S. policies to foreign audiences.

d. Edited stock-footage productions.

e. Training and internal communications productions.

f. Re-makes of previous productions.

g. Productions that have a security classification lower than "secret."

h. Productions which add a new segment to an on-going series.

i. Productions which communicate "technology transfer."

II. Improving Federal credit management and debt collection

The problems associated with debt collection resulted in more than $25 billion of the debts owed the Government on September 30, 1979, being delinquent or in default with another $8.4 billion in loans being rescheduled or stretched out because borrowers were unable to pay.

An aggressive program to improve Federal credit management and debt collection has been initiated seeking both administrative and legislative remedies. The Office of Management and Budget is working with the Treasury Department to revise and improve the current reporting system which provides information on debt owed the Government. OMB is also working with the Department of Justice to improve the organization and administration of the litigation process to provide for more timely and effective litigation. The Federal agencies are preparing detailed plans for describing major debt collection issues and identifying specific actions that are needed.

Legislative action is needed to eliminate some of the disincentives that presently exist in the debt collection process. Changes are being sought to make available the essential tools and techniques commonly used in the private sector and to increase efficiency and effectiveness in the Federal credit management.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release April 23, 1981

FACT SHEET

STRENGTHENING FEDERAL CREDIT MANAGEMENT

Summary: President Reagan today ordered the heads of all Federal departments and agencies to institute more effective debt collection practices and better credit management. He directed that an official be designated in each department and agency for debt collection by May 15, 1981. Additionally, he ordered a review of current debt issues and requested a plan for improved debt collection to be submitted to the Office of Management and Budget by September 30, 1981.

BACKGROUND

- More than $25 billion, of the $175 billion in debts owed the Federal Government on September 30, 1979, was either delinquent or in default. An additional $8.4 billion in loans was in some form of rescheduled status because of borrowers' inability to pay.
- Over $1 billion in bad debts was written off in fiscal year 1979. It is likely that approximately $6.3 billion more will be written off in the future.
- The interest on $25 billion at 15% is approximately $10.3 million dollars per day, without compounding.
- It is estimated that $16 billion, of the $25 billion in delinquent receivables, is recoverable over the next 3-4 years through an aggressive debt collection program. The remaining $9 billion will either be written off by the agencies, remain on the books as delinquent, or be rescheduled -- postponing losses or liquidation of collateral.
- Approximately $13 billion of the $25 billion is delinquent taxes owed the Internal Revenue Service. The IRS believes that $10 billion of this amount is collectible, while the remainder will have to be written off over the next 6 years.

- $8 billion of the total $25 billion represents defaulted or delinquent loans. Most of these are from college students who borrowed from the Department of Education and from homeowners who borrowed from the Veterans Administration, Federal Housing Administration, and Farmers Home Administration.
- Much of the $25 billion in delinquent debt is 2-6 years past due and represents a substantial backlog due to a lack of aggressive debt collection. Backlogs are especially prevalent in HUD, Education, IRS, and VA.
- Delinquents and defaults are a continual occurrence because the Government, as a lender of last resort, often deals with high risk debtor groups.

ACTIONS ORDERED BY THE PRESIDENT

The President directed the heads of Executive Branch agencies and departments to develop and implement an aggressive debt collection program to include the following:

- Designate an official with responsibility and authority for debt collection and submit the name of the designated official to OMB by May 15, 1981.
- Prepare a detailed review of current debt issues and outline the action to be taken to resolve the issues and a timetable for completion of the action. Submit this action plan to OMB for approval and subsequent implementation by June 15, 1981.
- Develop a plan for improved credit management and more efficient debt collection in the future.
- With approval of the appropriate agency head, submit a progress report on the results of the review and the to the Director of the Office of Management and Budget by September 30, 1981.
- Report status of debt collection annually hereafter in September.

The President instructed the Director of the Office of Management and Budget to issue procedures and guidelines to assist the agencies and departments in carrying out this directive.

THE WHITE HOUSE
WASHINGTON

April 23, 1981

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

SUBJECT: STRENGTHENING FEDERAL CREDIT MANAGEMENT

The burden of delinquent debts owed to the Federal Government continues to grow every year and is contributing to our serious problem of inflation. We must again establish the principle that debts to the Federal Government must be paid. Recent studies by the Executive Branch Debt Collection Project and the General Accounting Office reveal that more than $25 billion of the $175 billion in debts owed the Federal Government are either delinquent or in default.

We must institute better credit management to prevent debt delinquencies and defaults and use more aggressive debt collection procedures to recover the delinquencies that do occur. We must take firm action now to reduce that portion of the $25 billion debt backlog that is collectible.

As first steps, I am directing you to designate an official with responsibility and authority for debt collection and submit the name of this official to the Office of Management and Budget by May 15, 1981. Additionally, each department and agency is to complete a review of their agencies debt situation and prepare a detailed plan and schedule for resolving identified problems. This is due by June 15, 1981 to the Office of Management and Budget.

To slow the expansion of delinquent debt, each agency and department will provide a plan for improved credit management and more efficient debt collection. A progress report on the results of your reviews and the development of credit management plans will be due by September 30, 1981 to the Office of Management and Budget. Hereafter, an annual report on debt collection will be submitted in September.

I am instructing the Director of the Office of Management and Budget to issue procedures and guidelines to assist you in carrying out this directive.

Administrative actions are not sufficient to resolve this critical problem. Accordingly, this Administration will support legislation to facilitate better credit management and more effective debt collection.

We cannot afford to allow debt to grow and add to the burden of inflation. Immediate action is required now to restore sound credit management to the Federal Government.

Ronald Reagan

THE WHITE HOUSE

Office of the Press Secretary

APR 23 1981

STATEMENT BY THE PRESIDENT

The burden of delinquent debts owed to the Federal Government continues to grow every year and is contributing to our problems of inflation. More than $25 billion of the $175 billion in debts owed the Federal Government is either delinquent or in default. The interest on the delinquent debt alone, at a 15% rate, is almost $10.3 million per day. This abnormally high delinquency rate is another example of the abuse and mismanagement in the Federal Government. Allowing uncollected debt to grow increases the cost of government and adds to the inflation that hurts every one of us.

We must make it clear that debts owed to the Federal Government must be repaid. These debts are due from all segments of our society: college graduates whose tuition was paid for by government loans; homeowners who have defaulted on loans from the Veterans Administration, Farmers Home Administration and Federal Housing Administration; businesses who have used government funds to finance export sales; farmers who have used government loans to finance farm operations; and individuals and businesses who have not settled their tax accounts with the Internal Revenue Service.

It is not right that responsible, honest citizens should suffer because of those who do not honor their obligations or pay their taxes.

We must immediately pursue the current overdue debt to reduce that $25 billion burden. We must institute better Federal credit management to prevent debt delinquencies and defaults and use more aggressive debt collection practices to recover the delinquencies that do occur.

I am directing the heads of Federal agencies and departments to institute more effective debt collection practices and better credit management. I am asking them to designate an official in each agency or department who will have direct responsibility for debt collection. Additionally, I am calling for a detailed review of the current overdue debt and asking for a plan to collect those debts. Each agency and department must also provide a plan for improved credit management and debt collection in the future.

A progress report on the results of the detailed review of backlogged debt, along with the credit management plans, will be due by September 30, 1981. As a further step in establishing better discipline in this area, an annual report on debt collection will be due every September when the Federal budgets are being reviewed.

Administrative action alone is not enough to solve this massive problem. Accordingly, this Administration will support legislation to facilitate debt collection and allow the Federal agencies and departments to practice better credit management.

We will not allow mismanagement and abuses in the Federal Government to contribute to the burden already being carried by the American people.

RONALD REAGAN

OFFICE OF MANAGEMENT AND BUDGET

For Immediate Release May 7, 1981

FACT SHEET

STAFF STUDY ON DEBT COLLECTION

SUMMARY: Today the Director of the Office of Management and Budget, David A. Stockman, released the Debt Collection Project, a Staff Report on Strengthening Federal Credit Management, that was completed in January, 1981. The purpose of releasing the report at this time is to demonstrate the magnitude of Federal credit management problems. The data and recommendations offered in this staff study are being reviewed by the current Administration as a part of the Program to Strengthen Federal Credit Management.

BACKGROUND

- On April 23, 1981, President Reagan ordered the heads of all Federal departments and agencies to institute more effective debt collection practices and better credit management. He directed that an official be designated in each department and agency by May 15, 1981, for debt collection. Additionally, he ordered a review of current debt issues and requested a plan for improved debt collection be submitted to the Office of Management and Budget by September 30, 1981.

- The staff study released today was begun in August, 1979 and conducted by public and private sector personnel in 24 Federal agencies which account for 95% of the debt owed to the Federal Government.

- A significant finding of the study was that reliable data does not exist in many areas. The study showed that $10 billion of debt had been reported improperly in the Government's financial statements.

- The study offered a wide range of conclusions and recommendations for improving the Government's debt collection. These are in the areas of:

  -- holding managers accountable for their performance in credit management and debt collection;

- -- ensuring the adequacy of resources to perform effectively in credit areas;
- -- providing government managers with some of the same tools used in private sector credit management; and,
- -- providing stronger oversight from within OMB of the executive agencies' policies, procedures and practices.

ACTIONS BY THE ADMINISTRATION

The Administration will develop and pursue the implementation of the recommendations it believes appropriate, as expressed by Mr. Stockman in hearings conducted April 23, 1981, before the Senate Committee on Governmental Affairs. These include:

- . requiring credit applicants to furnish their social security numbers for credit management purposes;
- . screening applicants seeking either Government direct or guaranteed credit with the Internal Revenue Service to assure that credit is not extended inadvertently to those who have faile to pay their taxes;
- . referring pertinent information on delinquent debtors to credit bureaus for inclusion in their credit records, thus providing an additional incentive for more timely repayment by delinquent debtors;
- . requiring the assessment of interest on non-tax debts due the government at the Treasury's Tax and Loan Account Investment Rate, additional charges to provide for recovery of the costs incurred by the Government to collect delinquent debts, and, when appropriate, a penalty charge for debts that are more than 90 days past due;
- . raising the interest rate on delinquent taxes due the Internal Revenue Service from 90 to 100 percent of the prime rate, with annual adjustments;
- . allowing agencies to redisclose delinquent debtor addresses obtained from the Internal Revenue Service to private sector contractors in pursuing collection of debts;

- providing for the offset of delinquent debts owed the Government by Federal employees against their salaries;
- allowing the courts more latitude in the use of special appointments to serve summonses in Federal debt cases when U.S. Marshals are not available for timely serving;
- making it a Federal offense to assault a Federal employee during the course of his official duties in collecting amounts due the Government; and,
- clarifying that the six year statute of limitations does not prevent the administrative offset of delinquent debts owed the Government against future payments, benefits, or refunds due the delinquent debtors.

OFFICE OF MANAGEMENT AND BUDGET

For Immediate Release May 7, 1981

STATEMENT BY THE DIRECTOR

The massive problem of overdue and uncollected debt owed to the Federal Government is an example of the type of waste and mismanagement that we are committed to eliminate. More than $25 billion of the $175 billion in debts owed to the Government were either delinquent or in default as of September 30, 1979. The interest alone on this $25 billion at 15% is costing the taxpayers of this country about $10.3 million dollars a day -- $10.3 million a day simply wasted.

Today I am releasing a staff study prepared by the Debt Collection Project Staff at the Office of Management and Budget. The study was completed in January, 1981. It is being released today to illustrate the magnitude of the problems we must correct in Federal credit management and debt collection.

The data and recommendations offered in this staff report are being reviewed by the Administration and will provide background for the current Program to Strengthen Federal Credit Management.

Administrative actions are not sufficient to resolve these problems. Legislative changes are essential to a strengthened Debt Collection Program. We are certain that the Congress will move swiftly to consider the legislative initiatives that the President is proposing so that we can stop this needless waste.

Paul A. Stockman

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

BULLETIN NO. 81-17 April 27, 1981

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Debt Collection

1. Purpose. This Bulletin requires that an aggressive program for strengthening Executive Branch debt collection practices be instituted.

2. Authority and Background. The Budget and Accounting Act of 1921, as amended. The President directed in the 1982 Budget Revisions that the collection of amounts owed the Government be improved. This Bulletin outlines the steps that will be taken to carry out this directive.

3. Coverage. This Bulletin applies to the agencies listed in Attachment A.

4. Policy. It is the policy of this Administration that Executive Branch departments and establishments will ensure the timely and economical collection of all monies owed the Government, including but not limited to, monies due for taxes, loans, sales of goods and services, fines, penalties, forfeitures, interest, overpayments, fees, duties, rents, royalties, claims and damages.

5. Action Requirements.

a. Responsible Official. Each agency will designate an official with responsibility and authority for debt collection. Attachment B to this Bulletin, Suggested Responsibilities: Agency Debt Collection Officials, provides suggested attributes for this position. Each agency should submit the name of the designated official to OMB not later than May 15, 1981.

b. Agency Plans. Each agency official should prepare a detailed action plan describing each major problem or issue in the agency, the specific steps to be taken, and a timetable for each step. The plan should be directed toward three objectives: (1) implementing aggressive debt collection practices to quickly recover that portion of the current backlog of delinquencies deemed collectible; (2) implementing effective credit management procedures to prevent unnecessary new delinquencies; and, (3) taking firm action to recover newly occurring delinquencies and defaults. After the plan is approved by the head of the department or agency it should be transmitted not later than June 15, 1981 to the Director of OMB for approval. Budget examiners and members of the OMB Debt Collection Project Staff will be available for consultation during development of the plan. The initial agency report on debt collection efforts and resources is due to OMB by September 30, 1981. Annual reports will be due by each subsequent September 30. Interim reports will be required as necessary. Attachment C to this Bulletin provides reporting instructions to be followed.

6. Use of Collections. Collections will be returned to the General Fund of the Treasury or to the program activity, as authorized by law. In the latter case, as authorized, collections generated may be applied to other approved program activity within the same appropriation in the following order of priority:

a. to offset the need for mandatory program supplemental appropriations or amendments that could otherwise be submitted to the Congress under the provisions of the Antideficiency Act (31 U.S.C. 665(e));

b. to provide funds in lieu of pay supplementals;

c. to reduce the need for supplemental appropriations for interest subsidies and defaults on guaranteed or direct loans;

d. to offset the need for the exercise of borrowing authority; and

e. to offset the need for additional budgetary resources for other authorized purposes.

However, where increased collections provide additional resources that cannot be used prudently and result in a withholding of funds from obligation, the reporting requirements prescribed by the Impoundment Control Act of 1974 apply, as set forth in OMB Circular No. A-34 and OMB Bulletin No. 75-15. In such cases, rescission proposals or deferral reports will be prepared and submitted to OMB for inclusion in a special message on rescissions and deferrals.

7. Information Contact. Inquiries should be directed to the OMB Debt Collection Staff at 395-3967, or to the OMB representative responsible for reviewing the department's or establishment's budget estimates.

8. Sunset Date. This Bulletin will expire on September 30, 1982.

David A. Stockman
Director

Attachments

ATTACHMENT A

Departments and Agencies Required to Report

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of Treasury
National Aeronautics and Space Administration
Veterans Administration
General Services Administration
International Development Cooperation Agency
Small Business Administration
Export-Import Bank
Interstate Commerce Commission
Overseas Private Investment Corporation
Tennessee Valley Authority
United States Railway Association
Railroad Retirement Board

ATTACHMENT B

SUGGESTED RESPONSIBILITIES: AGENCY DEBT COLLECTION OFFICIALS

A designated debt collection official would need authority to decide what agency collection policies and procedures will be, and the authority to implement and enforce these policies and procedures. This authority should extend agency-wide and not be limited to a particular program or programs. The individual should also have the necessary authority to determine the extent to which private sector contractors will supplement agency debt management functions.

Appropriate responsibilities for a designated debt collection official would include:

- o Establishing and implementing an aggressive debt collection program throughout the agency to prevent and recover delinquencies and developing, monitoring, and enforcing agency-wide credit management and debt collection policies and practices;
- o Ensuring that all debt management functions, especially those related to accounting, reporting, servicing, collecting, foreclosing, and liquidating are accomplished expeditiously and effectively, whether they be performed in-house by agency personnel or by private sector contractors on behalf of the agency;
- o Assuring that the improvement actions outlined in the agency's debt collection improvement plan provided to OMB are pursued vigorously and accomplished according to the timetable specified in the plans;
- o Addressing the debt management resource and systems needs of the agency and determining, in accordance with the procedure established in OMB Circular No. A-76, whether these needs can be satisfied by reallocating agency resources or contracting out certain functions to the private sector is the best solution; and,
- o Reducing the agency's outstanding delinquencies and defaults to a level that is acceptable to the agency head and OMB.

Finally, the individual should be at a high enough level in the agency to determine and enforce agency-wide debt management policies and procedures and to effectively interact with other agency program and administrative staffs.

ATTACHMENT C

REPORTING REQUIREMENTS

The reports will contain the following two sections:

Section A

1. The agency organizational structure and responsibilities for debt collection activities.

2. Amount of debt outstanding by program on September 30. (If different from the amount reported to Treasury (SF220), explain and reconcile the differences.)

3. Expected change in outstanding debt during each of the next three fiscal years.

4. Amounts of debt expected to be collected during each of the next three fiscal years.

5. Relative collectibility of outstanding debt at the end of the next three fiscal years in terms of:

	Amount	
Percent Collectible	Outstanding	Collectible
75 - 100	$	$
50 - 75		
25 - 50		
0 - 25		
Total		

6. Expected number of workyears associated with and estimates of total costs of planned debt collection activities during each of the next three fiscal years.

7. New activities that will be undertaken over the next three fiscal years and whether these will be carried out by government or non-government personnel.

Section B

1. Progress report on each of the issues in the Agency Plan (paragraph 5b of this Bulletin).
    a. Statement of issue
    b. Actions taken
    c. Remaining actions and timetable for completion
    d. Changes in timetable and reason

2. Issues added to Agency Plan since previous report.
    a. Description of issues
    b. Action planned
    c. Timetable for completion

III. Travel Management

A report on problems in Federal travel management will be released in the near future.

Attention is being focused on the following areas in developing management actions to improve travel management:

-- streamlining travel entitlement policies and reimbursement procedures

-- strengthening travel arrangement and procurement policies and procedures

-- strengthening travel cost accounting and management guidance and

-- installing a travel management assessment and audit process which can be used to identify inefficient travel and travel management practices.

IV. Use of Consultants

The objective of reviewing the use of consultants is to eliminate abuses but not to eliminate the appropriate use of consultant services. Several initiatives have been taken to improve controls and monitoring of consultant contracts:

-- all consulting service contracts must now be identified and entered in the Federal Procurement Data System

-- written justification and approval are required at a level above the sponsoring organization -- and during the fourth fiscal quarter approval is needed from two levels above the sponsor, and

-- agencies are required to submit to OMB plans for agency management control systems for consulting services.

Additionally, this issue is being addressed as part of the development of the new Federal procurement system.

THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR RELEASE
UNTIL AFTER BRIEFING

March 26, 1981

STATEMENT BY THE PRESIDENT

Today, I am announcing two actions to respond to the demand of the American people for honesty in government.

While hundreds of thousands of government employees are working honestly and competently to serve their nation, there is also a very small minority of dishonest — and some frankly incompetent — individuals who are costing the taxpayers perhaps billions of dollars in fraud and waste.

This is not my money; it is not the Congress's money — it is the people's money. Our failure to stop this fraud, waste and mismanagement has led to growing public cynicism about the ability of government to control itself. It raises fundamental questions about the integrity of government.

My first action is the issuance of an executive order establishing the President's Council on Integrity and Efficiency. This action signals everyone who works for or does business with the government that we mean business.

This executive order I have signed brings together in one body the Inspectors General of the various agencies of government so that they can focus their total efforts in the places that will do the most good. This will also include the efforts of the Justice Department and its resources in the FBI.

Bringing together these efforts will permit all agencies to share knowledge of fraudulent and wasteful activities. They will exchange information on the kinds of investigations which will provide the most promising results. And they will be ready to move in quickly with tough and effective criminal prosecutions where such prosecutions are warranted.

I have asked Edwin Harper, Assistant to the President and Deputy Director of the Office of Management and Budget to chair the new council. Mr. Harper will be reporting directly to me, and, Ed, I am confident that you will have a lot to report.

I am also announcing the appointments of the first six of the sixteen Inspectors General that are authorized by law. When I exercised my prerogative as a new President to terminate the appointments of the incumbent inspectors, I announced that we would seek the very best people we could find, including those who previously held these positions. Five of the six individuals I am announcing today were previously serving as Inspectors

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General, and I hope this puts to rest suspicions that have been voiced that politics has anything to do with these appointments. We sought the best people available — individuals with experience who have uncovered cases of fraud and waste in government and have saved or recovered millions of dollars.

I am also pleased to announce that the FBI has just concluded a major investigation in New York relating to fraud in the Summer Lunch Program. FBI Director William Webster will be here later today to give you a complete briefing on this matter.

We will not rest with today's announcement. We will not simply tuck this event away and go on with business as usual. The American people are demanding action, and they are going to get it. Believe me, we are out to get control of our lives — and we are going to follow every lead, root out every incompetent, and prosecute any crook we find who's cheating the people of this nation. This I promise.

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THE White HOUSE

Office of the Press Secretary

EMBARGOED FOR RELEASE
UNTIL AFTER BRIEFING

March 26, 1981

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

SUBJECT: Government-Wide Anti-Fraud and Waste Efforts

The reduction of fraud and waste in the operation of all Federal programs is a major commitment and priority of my Administration. Today, I am establishing, by Executive Order, the President's Council on Integrity and Efficiency to focus and improve our efforts to deal with the problem. The Deputy Director of the Office of Management and Budget will chair this Council which will include all of the statutory Inspectors General and other key officials.

The commitment to reduce fraud and waste cannot be limited to those departments and agencies where statutory IGs have been established. I have asked the Chairman of the Council to ensure that other departments and agencies are actively involved in this most important undertaking. The Executive Order directs the Chairman to convene all of the agencies not on the Council at least four times a year to share information on Council policy initiatives.

The establishment of this Council is an integral part of a broader plan to attack fraud, waste and inefficiency in Federal programs. This plan will involve a combination of key officials and organizations, coordinating mechanisms, and priority projects operating under active OMB leadership on my behalf.

I expect each of you to provide the necessary support and cooperation to assure that our objective is accomplished. One specific action I am asking you to take is to designate a top level individual who will have the responsibility for following up on the recommendations of your official who is responsible for coordinating efforts to eliminate fraud and waste and the recommendations of the General Accounting Office.

RONALD REAGAN

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THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR RELEASE
UNTIL AFTER BRIEFING

March 26, 1981

EXECUTIVE ORDER

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INTEGRITY AND EFFICIENCY IN FEDERAL PROGRAMS

By the authority vested in me as President by the Constitution and statutes of the United States of America, and in order to coordinate and implement Government policies with respect to integrity and efficiency in Federal programs, it is hereby ordered as follows:

Section 1. Establishment of the President's Council on Integrity and Efficiency. (a) There is established as an interagency committee the President's Council on Integrity and Efficiency.

(b) The Council shall be composed of the following members:

(1) The Deputy Director of the Office of Management and Budget who shall be Chairman of the Council;

(2) The Deputy Attorney General;

(3) The Director of the Office of Personnel Management;

(4) The Executive Assistant Director of Investigations of the Federal Bureau of Investigation;

(5) Inspector General, Department of Energy;

(6) Inspector General, Department of Agriculture;

(7) Inspector General, Department of Housing and Urban Development;

(8) Inspector General, Department of Labor;

(9) Inspector General, Department of Transportation;

(10) Inspector General, Veterans Administration;

(11) Inspector General, Department of Health and Human Services;

(12) Inspector General, Department of Education;

(13) Inspector General of the Department of State and the Foreign Service;

(14) Inspector General, Department of Commerce;

(15) Inspector General, Department of the Interior;

(16) Inspector General, Community Services Administration;

(17) Inspector General, Environmental Protection Agency;

more

(OVER)

(18) Inspector General, General Services Administration;

(19) Inspector General, National Aeronautics and Space Administration;

(20) Inspector General, Small Business Administration;

(21) A designee of the Secretary of the Treasury;

(22) A designee of the Secretary of Defense, and

(23) A designee of the Director of the United States International Development Cooperation Agency.

(c) The Chairman shall, from time to time, invite the following to participate in meetings of the Council:

(1) The Comptroller General of the United States, and

(2) The Postmaster General of the United States.

Sec. 2. Functions of the Council. (a) The Council shall develop plans for coordinated government-wide activities which attack fraud and waste in government programs and operations.

(b) In order to ensure coordinated relationships between Federal, State and local government agencies, and nongovernment entities with respect to all matters relating to the promotion of economy and efficiency, the Council shall develop standards for the management, operation, and conduct of inspector general-type activities.

(c) Policies shall be developed by the Council which will ensure the establishment of a corps of well-trained and highly skilled auditors and investigators.

(d) The Council shall develop interagency audit and investigation programs and projects to deal efficiently and effectively with those problems concerning fraud and waste which exceed the capability or jurisdiction of an individual agency. The Council will recognize the pre-eminent role of the Department of Justice in matters involving law enforcement and litigation.

(e) The Council membership shall, to the extent of their own authority to do so, implement those coordinated plans, standards, policies, programs, and projects (1) in order to conduct and supervise audits and investigations relating to programs and operations of the Government, and (2) in order to promote economy, efficiency, and effectiveness in the administration of programs and operations of the Government, as well as to detect fraud and abuse in such programs and operations.

(f) The creation and operation of the Council shall not interfere with existing lines of authority and responsibility in the departments and agencies.

Sec. 3. Responsibilities of the Chairman. (a) The Chairman shall, in consultation with the members of the Council, establish procedures for the Council; and, he shall establish the agenda for Council activities.

(b) The Chairman shall, on behalf of the Council, report to the President on the activities of the Council. The Chairman shall advise the Council with respect to the reaction of the President on the Council's activities.

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(c) The Chairman shall provide agency heads with summary reports of the activities of the Council.

(d) The Chairman shall establish such committees of the Council, including an executive committee, as he deems necessary or appropriate for the efficient conduct of Council functions. Committees of the Council may act for the Council in those areas that affect the membership of the committee.

(e) The Chairman shall be supported by the Associate Director for Management of the Office of Management and Budget who shall advise and assist the Chairman in the execution of the entire range of responsibilities set forth above.

Sec. 4. Coordinating Conference. (a) There is established as an interagency committee the Coordinating Conference of the President's Council on Integrity and Efficiency.

(b) The Conference shall be composed of the Chairman of the Council and one representative of each Executive agency not represented on the Council. The head of each such agency shall designate as the agency's representative the official who is responsible for coordinating the agency's efforts to eliminate fraud and waste in the agency's programs and operations.

(c) The Chairman shall convene meetings of the Conference at least quarterly. The Chairman shall provide for the dissemination to the Conference of appropriate information on the activities of the Council, in order to enable the Conference membership, to the extent of their own authority to do so, to implement the coordinated plans, standards, policies, programs, and projects developed by the Council.

Sec. 5. Administrative Provisions. (a) The Director of the Office of Management and Budget shall provide the Council and the Conference with such administrative support as may be necessary for the performance of the functions of the Council and the Conference.

(b) The head of each agency represented on the Council or the Conference shall provide its representative with such administrative support as may be necessary, in accordance with law, to enable the agency representative to carry out his responsibilities.

RONALD REAGAN

THE WHITE HOUSE,
March 26, 1981

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Wednesday, June 10, 1981

STATEMENT OF EDWIN L. HARPER
DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE INTERGOVERNMENTAL RELATIONS AND
HUMAN RESOURCES SUBCOMMITTEE OF THE COMMITTEE
ON GOVERNMENT OPERATIONS
THE HOUSE OF REPRESENTATIVES ON
THE INSPECTOR GENERAL PROGRAM

Mr. Chairman and Members of the Subcommittee:

Ten weeks ago today, I was expressing pleasure at having the first opportunity to discuss the Inspector General program with you and to share with you some of the Administration's plans for making that program as effective as possible. Although I did not expect to have a second opportunity to speak with you so soon, I welcome this chance to bring you up to date on the progress that we have been making during the past two months. I understand that the Subcommittee would like to cover two principal issues this morning, the Inspector General nominations and the adequacy of resources for IG offices. I would be pleased to address these points and also tell you about what has been happening with the overall IG program.

Inspector General Nominations

In my April 1, 1981 statement to the Subcommittee, I described in some detail the specific process we have been employing to identify the best possible candidates for IG positions. Rather than repeat that today, I would like to describe to you some of the results of that effort to date.

We have now identified extremely well-qualified candidates for virtually all of the Inspector General positions. The President has already nominated fifteen of the sixteen statutory Inspector General.

Identifying strong IG candidates has been a complex and time-consuming process. This administration's record compares favorably with that of the previous administration despite the fact that the process has become more complex. Over a comparable period of time the prior administration had announced only 6 nominees versus 15 for the Reagan Administration. Even so the process takes longer than any of us had anticipated. But I believe that when you examine the credentials of the President's nominees you will agree that the investment has been worthwhile.

I am submitting for the record a summary table highlighting the qualifications and experience of the Inspector General candidates whom the President has nominated to date. The candidates come from within and outside the Federal Government. About a third of them have been professional auditors. Another third have expertise in law or investigations. The remainder have demonstrated financial management or general management strengths. Those with Federal service have gained their experience during tenures ranging from eleven to twenty-nine years. Several, as you know, have had previous direct experience as Inspectors General or as Assistant Inspectors General for audit or investigation. We believe they will be the core of a well-managed and effective effort to eliminate waste, fraud, and mismanagement and to improve the way in which Federal programs operate.

Let me assure you that the Administration is just as anxious as is the Congress to have these individuals in place and functioning. Indeed, we are already working with them and introducing them to their new agencies to the extent that is legally permissible before confirmation. In fact, last week they were gathered for an extensive Inspector General orientation program, that I will describe for you later.

Inspector General Resources

The second point that the Subcommittee wanted to cover today is Inspector General resources. As you will recall from my April 1 statement, I provided the following information about IG resources:

- The President's Budget reflects increases in total staffing and funding for the statutory Inspector General program in both fiscal years 1981 and 1982 over fiscal year 1980 actual figures.

- Every individual agency's fiscal resources will grow in FY 82 over FY 80 except for CSA (which is being phased out).

- Personnel resources were increased in FY 82 over FY 81 in 7 agencies, remained unchanged in 3 agencies, and were reduced on a prorata basis or less in 6 agencies.

- Over the two-year period, from FY 80 to FY 82, 13 IGs were increased in staffing and 3 were decreased.

I indicated that particularly at a time when the President--and now the House as well--has recommended substantial Govermentwide budget reductions as an important element in the economic recovery program, these levels represented adequate resources for overall Inspector General operations. I also said that we would be working closely with those agencies proposing a reduction in personnel, specifically Agriculture and SBA, to determine the ramifications of such actions and to suggest, as appropriate, mid-course corrections.

I am pleased to report to the Subcommittee today that changes now have been made by both the Department of Agriculture and the Small Business Administration, increasing the staffing levels for the Inspectors General above the levels I reported in April.

The Secretary of Agriculture has decided to add back 30 positions to the Department's Office of Inspector General, bringing the totals for FY 81 and FY 82 to 880 from 850. Given other reductions throughout the Department, we believe that this is an appropriate level of resources for the IG to operate effectively.

At the request of OMB, the SBA Administrator, decided to provide 23 additional positions to the SBA IG operations for FY 81. The agency itself will reprogram sufficient positions in FY 82 to maintain this level of resources for the IG. The SBA Inspector General will now have 145 rather than 122 positions in FY 81 and FY 82.

In addition, the Secretary of Energy transferred fifty field auditor positions which were not under IG control to the Office of Inspector General. This brings the Energy IG's staffing total from 155 to 205 in FY 81 and from 150 to 200 for FY 82.

These changes mean that now all but one IG office, Agriculture, other than CSA which is to be phased out, will show staffing increases over the two year period FY 80 to FY 82. Total staffing for IG operations will increase to 5498 in FY 81 and to 5626 in FY 82, 103 positions more in each year than was the estimate in April. I am including a table showing the agency-by-agency figures for the record.

What Has Been Happening in the Inspector General Program?

I now would like to tell you what has been happening in the IG program over the past two months. I will only be able to hit highlights, but I would like to touch on three items: progress by the President's Council on Integrity and Efficiency, the orientation program for Inspectors General-designate, and on-going day-to-day operations of the individual offices of Inspector General.

The President's Council

I last testified before this Subcommittee just before the first monthly meeting of the President's Council on Integrity and Efficiency. Last week, we held our third session. In the short time we have been in operation, I believe we have made real progress.

- We have established a Council committee structure including committees on legislation, investigation/law enforcement, training, and performance evalution; administrative remedies and incentives, and fraud and waste special task forces.
- We have identified, placed priorities on, and made work assignments for over a dozen specific projects in the areas of financial management improvements, contract and grant management, eligibility and beneficiary issues, and ADP systems.
- We have decided to issue periodic highlight reports to keep managers apprised of major IG actions and to share new techniques and approaches throughout the IG community.
- We have met with the Chairperson of the MSPB and with the President of the American Federation of Government Employees to explore ways to increase employees' knowledge of and confidence in the Inspector General program and Governmentwide efforts to eliminate waste and fraud.

Inspector General Orientation

The Council also organized and conducted a comprehensive orientation program for the Inspectors General-designate. The program was conducted from June 1 - 3 at the FBI Academy at Quantico, Virginia. The orientation was designed to share with new IGs-designate the experiences of the IGs being reappointed and to help them get to know one another as well as other Executive Branch officials involved in the anti-fraud and waste effort.

The major segments at the orientation concentrated on the President's agenda for reducing fraud and waste in government; key systems for planning and executing audit and investigative programs; audit responsibilities; the organization and use of IG resources; litigation and investigative responsibilities; personnel management for Inspectors General; and Federal procurement activities. I am providing a copy of the agenda for the record.

On-going Inspector General Operations

At the same time that we have been concentrating on governmentwide activities, the individual offices of Inspector General have continued to do a fine job in conducting their on-going operations. In fact, I believe that each of the men and women who has been serving as an acting Inspector General during this period should be commended.

The semi-annual reports covering the first half of Fiscal Year 1981 are now available. Based on our preliminary review of these reports, the first half of FY 81 compares favorably with the first half of FY 80. Let me just give you some of the flavor of on-going operations. For the first six months of FY 81:

- The IGs questioned over $1.1 billion in costs--the comparable figure for all of FY 80 was approximately $1.35 billion.

- The IGs issued over 16,000 audit reports.
- Over 2300 investigative cases were closed, resulting in over 300 indictments and over 300 convictions.
- Reported actual dollar recoveries totalled more that $95 million.
- IG recommendations resulted in cost avoidances of over $300 million.

The Offices of Inspector General covered a broad range of activities during this period. Let me just illustrate the nature, variety, and scope of some of their efforts and priorities:

- Agriculture--food stamp trafficking; loan fraud.
- Commerce--systemic improvements in agency operations; establishment of an audit resolution system.
- Education--Student Financial Aid program vulnerability assessment.
- Energy--emphasis on cash management and year-end spending.
- EPA--Project Look, a comprehensive review of the Wastewater Treatment Works contruction grant program.
- GSA--special emphasis on debarments and suspensions.

- HHS--new interdisciplinary staff to focus on cross-cutting issues in fighting fraud and abuse.

- HUD--improvements in resolution of audit findings.

- Interior-- implementation of new management information system.

- Labor--major emphasis on CETA program and financial management systems.

- NASA--studying ways to protect R&D programs against identified patterns of waste and inefficinecy.

- SBA--recommendations resulting in fraud and waste "risk reduction".

- Labor--emphasis on procurement and grant programs.

- VA--emphasis on accounts receivable and debt collection effectiveness.

The offices of Inspector General continue to contribute effectively to the effort to eliminate fraud and waste.

As you can see from the brief description that I have been able to give you today, a considerable amount of constructive activity is going on in the Inspector General program. We believe that this progress will be accelerated once the new IGs are in place. I know that the President's nominees are bringing with them solid ideas for strengthening the IG program and making the most effective possible use of the resources they will have available. I know that they will have full support of the President's Council on Integrity and Efficiency and OMB as well as this Subcommittee in their endeavors.

We continue to appreciate the Subcommittee's interest and assistance in the Inspector General Program.

I would be pleased to answer any questions you may have.

5/27/81

Inspector Genral Resources
Full-Time Employment
Final Figures Reflected in President Reagan's Fiscal Year 1982 Budget

Agency	1980 Actual	1981 Estimate	1982 Estimate	Change From 1981-1982	Change From 1980-1982
Agriculture	930	880	880	0	-50
Commerce	134	186	181	-5	+47
Education	275	300	331	+31	+56
Energy	129	205	200	-5	+71
HHS	979	957	1,008	+51	+29
HUD	465	470	553	+83	+88
Interior	177	226	236	+10	+59
Labor	387	433	433	0	+46
State	71	74	75	+1	+4
Transportation	416	443	429	-14	+13
CSA	61	54	0	-54	-61
EPA	133	121	156	+35	+23
GSA	523	538	536	-2	+13
NASA	88	110	114	+4	+26
SBA	126	145	145	0	+19
VA	330	356	349	-7	+19
	5,224	5,498	5,626	+128	+402

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